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SAUDI-EGYPTIAN RELATIONS:
THE POLITICAL AND MILITARY DIMENSIONS OF
SAUDI FINANCIAL FLOWS TO EGYPT

Jake Wien

January 1980

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PREFACE

This research paper is one of several forthcoming studies produced for the project *Rich and Poor States in the Middle East.* Under the guidance of Professor Malcolm Kerr of the University of California at Los Angeles, a series of quarterly seminars brought together several Arab scholars and others and made possible an interdisciplinary academic environment which focussed primarily on problems of contemporary Arab economic development. Among the diverse issues studied were inter-Arab political and economic obstacles to the achievement of efficient and equitable development in poor Arab states, Egypt and economic liberalization, and trilateral ventures through resource-sharing.

The complex Saudi-Egyptian relationship--perhaps best illustrative of the economic polarity of the Middle East--has not received the attention it deserves, largely because of the difficulty of securing reliable information, especially cash-flow data. Yet enough of an empirical base exists so that one can begin to draw more than just the outline of the intricate, broad-ranging picture. The coloring and texture of the completed portrayal will come only with time and the disclosure of official Saudi and Egyptian data banks. At present, vital statistics for military assistance cannot be ascertained with any degree of reliability.

In spite of these handicaps, the author's task was facilitated considerably by the assistance of Dr. Galal Amin, an Egyptian economist visiting UCLA for the 1978-1979 academic year. To him and Dr. Kerr the author is grateful for perceptive observations and comments made on earlier drafts of this paper. The author's thanks also go to Dr. Ibrahim Shihata of the OPEC Special Fund, Vienna, for his having supplied the table on page 45. Supplementary insights were gained through interviews with Ford Foundation and A.I.D. analysts in Cairo in September 1978.

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TABLES AND CHARTS

I. INTRODUCTION

Egyptian indebtedness and the protracted search for solvency have been the bane of modern Egyptian history. For more than a century, since the construction and opening of the Suez Canal in 1869, the incursion of financial liabilities has necessarily entailed the sacrificing of a degree of control over Egyptian legal and fiscal autonomy and has inevitably limited the political choices of Egyptian rulers. Reformist attempts designed to relieve the chronic problems aggravated by the nemesis of economic dependency have not been successful, and the claims of international creditors remain unsatisfied to this day.

Both Nasser and Sadat have operated under the shadow of a large public debt. After the loosening of the colonial knot of British occupation following the Free Officers revolution in July 1952, Nasser labored to increase productivity to balance the Egyptian budget by instituting socialist industrial and agrarian reforms. Even had these ambitious plans been more effectively carried out, their economic impact would have been marginal given the contemporaneous pursuit of financially draining political and military policies. Nasser's successor Sadat inherited a gradually falling investment rate, a large balance of payments deficit, a savings ratio well below 10 percent, and debts to the Soviet Union accrued for defense expenditures. Sadat evaded repayment of many of the debts to the Soviet Union, but more importantly, he contributed to the partial restoration of Egyptian credit-worthiness by liberalizing the economy (a process known as the *infitah*) and creating conditions which would make foreign investment more appealing. Without the massive increase in Saudi assets (discussed in Chapter II) and without the legal and institutional economic, and to a limited extent political, reforms inside Egypt (discussed in Chapter III), the turn first to the oil-rich Arab states for aid and assistance, especially to Saudi Arabia, and then to the West could not have taken place.

This paper examines the vicissitudes of relations between Saudi Arabia and Egypt in the past decade and focuses on the aid flows and their political and military dimensions. In particular, and to the exclusion of private sector flows for which confidentiality is an important obstacle for research, cash flows from the Saudi public sector to the public sector of Egypt will be ascertained, but no methodical attempt will be made to determine their ultimate effects at the microeconomic level.

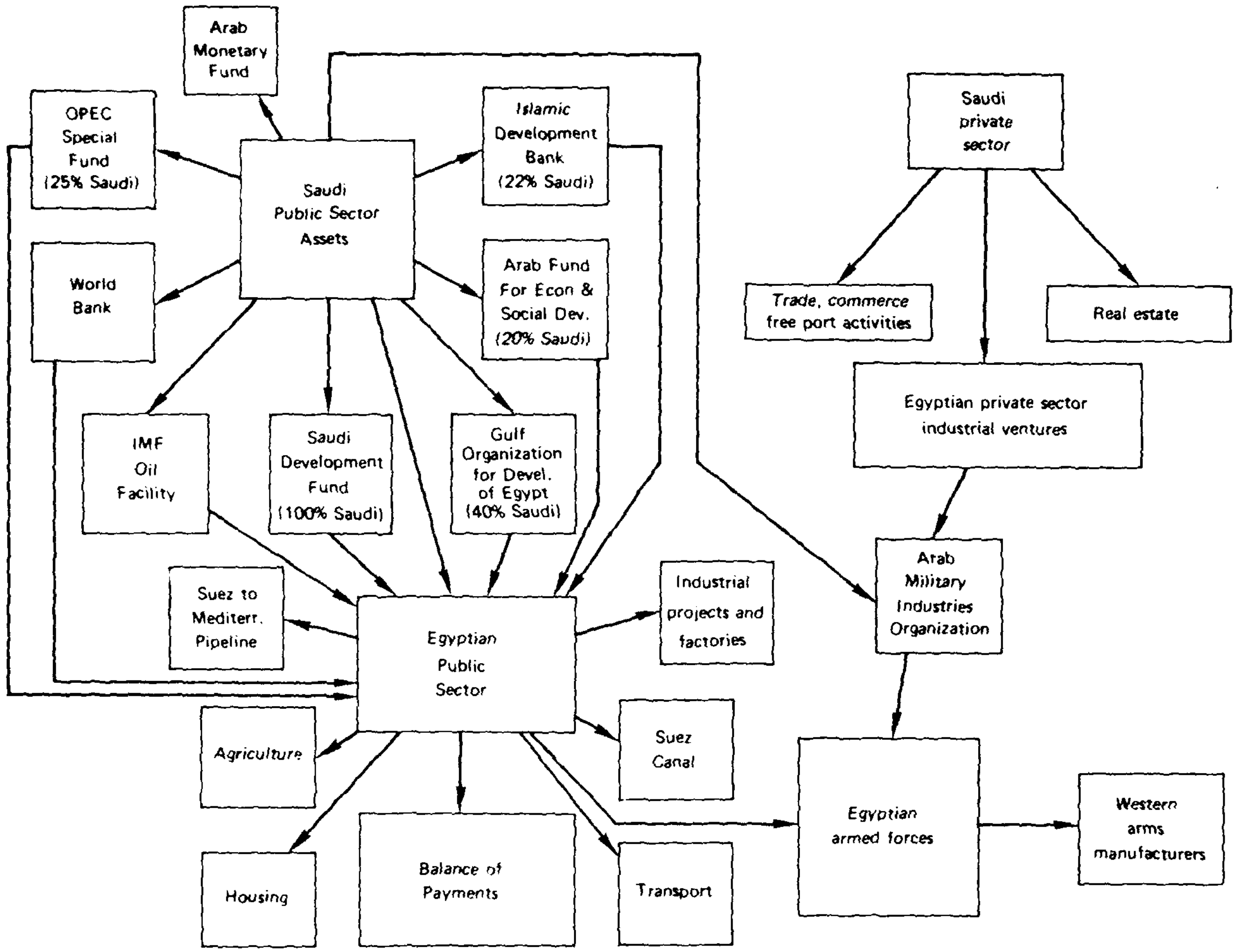
A conceptual overview of the many institutional and non-institutional channels through which Saudi aid to Egypt flows follows on page 3. The chart divides Saudi economic aid to Egypt into descriptive categories of origins and ends. Emanating from both the public and private sector in the recipient economy, often passing through intermediary financial institutions, aid has flowed to either the public or private sector in the recipient economy. The essential Arab aid institutions, bilateral and multilateral, and their respective assistance to Egyptian development are examined in Chapter IV.

Financial flows from Saudi Arabia destined for Egypt have many origins and ends and have been processed in many modes. Bilateral, Arab multilateral, and international institutions have been backed by Saudi funds. Both large and small amounts of aid have been channeled into the following aid institutions which allocate assets to Egypt:

I. Bilateral Aid Institutions
   A. Saudi Development Fund (SDF)

II. Arab or Islamic Multilateral Aid Institutions
   A. Arab Fund for Economic and Social Development (AFESD)
   B. Islamic Development Bank (IDB)
   C. Gulf Organization for the Development of Egypt (GODE)
   D. Arab Monetary Fund (AMF)
   E. Arab Investment Company

III. International Aid Institutions
   A. International Bank for Reconstruction and Development (World Bank)
   B. OPEC Special Fund
   C. International Monetary Fund (IMF)



THE BASIC CHANNELS OF SAUDI FINANCIAL FLOWS TO EGYPT

What constitutes *aid* throughout this paper will herein be defined. Loans providing non-concessionary terms and loans made strictly on a business investment in order to earn interest will not be considered *aid*. A concessionary loan can be *aid* to the extent that the nominal amount lent exceeds the present discounted value of interest and amortization payments. In essence, *aid* exists as long as donor assets decline by the same amount as recipient assets increase. Military aid is as important as civilian aid, and it can take the form of capital investment in nascent arms industry, of outright purchase of weapons for the recipient's military forces, or of a commitment to secretly support the recipient's military budget.

Financial statistics that are reliable and, more importantly, published are difficult to secure. The more revealing statistics may very well be classified, or worse, not even tabulated. With respect to Saudi Arabia and Egypt, there exist statistics for the civilian sectors, some of which measure Saudi additions to multilateral funds which filter into Egypt. But the majority of funds, however, probably change hands in an obscure way, discreetly allocated from treasury to treasury. Such are military transfers, whether of equipment, or of financial assistance; the largest capital transfers from Saudi Arabia to Egypt may in fact have been for military ends. Saudi pledges of military support often are made at multilateral conferences or summits, but whether or not these pledges eventually convert to bankable currency is open to speculation. Billions of dollars undeniably have flowed from Saudi coffers to Egypt, but figures with vast discrepancies have been used--$2 billion to $20 billion--depending upon the arguments various authors need to substantiate. The figure used most often by the Saudis for aid to Sadat has been $7 billion.

The liberalization of the Egyptian economy under Sadat brought with it new political and military realities. Saudi-Egyptian relations, for example, came full circle from 1967 to 1978, and a salient example of this turnabout has been the involvement of the two states in the Yemen.

Whereas in 1967 Egypt and Saudi Arabia supported antagonistic ideological factions in the civil war in the Yemen (1962-1967), in 1978 the two Arab states united behind a common banner to preserve a threatened Yemeni status quo. The withdrawal of Egyptian troops from the Yemen after the Khartoum summit in August 1967 marked the end of serious Egyptian involvement in southern Arabian liberation struggles and the beginning of a less adventuristic foreign policy.

Seeds for the enhancement of Saudi-Egyptian relations were sown at this time after the retreat of Nasser's forces from the Yemen. Financially initiated by King Feisal at the Khartoum conference in 1967, Saudi-Egyptian friendship flowered after the October 1973 war and reached full bloom just prior to Sadat's unilateral gesture to the Israelis capped by his trip to Jerusalem in 1977. For almost half a decade, Cairo and Riyadh were partners in the political and economic development of the region.

The Cairo-Riyadh axis has conditioned many of the policies of neighboring Arab states, for a constellation of several Arab states has looked to Egypt and Saudi Arabia for leadership and inspiration as well as for military protection and material sustenance. Anti-communist by nature and anti-revolutionary in practice, Oman, North Yemen, Somalia, Qatar, the United Arab Emirates, Bahrain, the Sudan, and even Kuwait and Jordan have been informally bound by common bonds which have guided the direction of their trade and military acquisitions.

A full decade after its initiation, however, divisive regional political and military pressures and global economic conditions forced a Saudi reassessment of its foreign relations and obligations. The Saudi-Egyptian alliance broke apart, not irrevocably perhaps, but with enough force to seriously question the future of political and military cooperation between the two countries. Though the short-term tactical advantages were numerous and highlighted by an eastward flow of teachers and technicians and a westward flow of financial assistance and investment, there have been equally significant long-term Saudi interests in Egypt which will continue to militate toward sustained political, military, economic, and cultural linkages in the 1980s. The overarching Saudi short-term and long-term motivations for the infusion of aid into Egypt can be summarized as follows:

I. Short-term objectives

A. Keeping Egypt economically and politically oriented toward the West by strengthening the Sadat regime and improving the Egyptian infrastructure

B. Securing Egypt militarily in preparation for local and regional armed conflicts, including confrontations with Israel

C. Projecting a benevolent image of humanitarianism and pan-Arab solidarity; reinforcing Islamic values and institutions

II. Longer-term objectives

A. Creating a favorable economic climate in Egypt which would offer a richer market for Saudi exports and would make joint ventures and private enterprising efforts profitable

B. Keeping Egypt militarily prepared to repel or deter armed insurgencies in Egypt or other African or Gulf states

C. Forestalling domestic turmoil in Egypt through sustained economic improvements

D. Establishing a broadly-based Arab arms production capability with the combined resources of several Arab states, including Saudi Arabia and Egypt

These multi-dimensional policy objectives have aimed to safeguard Saudi political and domestic security by keeping revolutionary forces in the region at bay. Saudi Arabia has assumed the position of a political balance wheel in the Arab world, and in this respect, Egypt has been only one of several states supported by the Saudis in their attempts to maintain the regional status quo. Current Saudi leaders have inherited a long tradition of creating and cultivating buffer states and alleviating bilateral tensions through skillful diplomacy and generous aid flows. In characteristic fashion, Saudi Foreign Minister Prince Saud al-Feisal has stated that his country "believes in the good neighbor policy regardless of the type of regime involved."[1] Of all the regional states, Egypt appeared to offer the Saudis a high rate of political and military return.

The pecuniary and non-pecuniary benefits to Saudi Arabia from cultivating Egyptian goodwill in particular have been impressive. A Saudi neighbor just across the Red Sea, Egypt has geo-political attributes which have long been coveted by the Great Powers, foremost of which are the Mediterranean port facilities and the Suez Canal. Perhaps the greatest asset to the underpopulated desert state of Saudi Arabia has been Egypt's burgeoning labor force of skilled, and semi-skilled workers and teachers who have been eager to stray abroad to the oil-wealthy states for salaries hardly accessible in Egypt. An IMF survey reported that Egyptian workers remitted an estimated $1.2 billion in 1977 from their work in Middle East oil-exporting states, and nearly $2.5 billion in 1978.[2] According to Egyptian Minister of Manpower and Vocational Training, Sa'd Muhammad Ahmad, of the estimated 1,890,000 Egyptians working in six Arab countries and Greece, more than 500,000 are dispersed throughout the Saudi labor market alone.[3]

The exchange of expatriate workers for high wages has not been the only setup mutually beneficial for Saudi Arabia and Egypt. The emerging military nexus has also been one of reciprocity, with long-range goals as supplemental incentives. Saudi Arabia has committed billions of dollars for the Egyptian purchase of advanced American weaponry, and has helped to capitalize the military sector of the Arab Organization for Industrialization, AMIO. This latter institution, founded in 1975

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[1] *Washington Star*, 3 March 1979, p. 5.

[2] *The New York Times*, 19 November 1977; *Middle East Economic Digest*, 22 June 1979, p. 5.

[3] Al-Sayyid Yasin, *Al-Musawwar* (in Arabic), 19 January 1979, pp. 18-19. Translated in JPRS Series on Near East and North Africa No. 1918, 7 March 1979, pp. 78-81.

by Egypt, Saudi Arabia, Qatar, and the United Arab Emirates, hoped to produce advanced weaponry for these four states and possible other Arab customers. It was potentially the most important of the "trilateral ventures" Sadat initiated in the decade, welding Egyptian manpower with Gulf oil wealth and Western technology. Chapter V details the history of the joint military-industrial undertaking, its goals and accomplishments, and accounts for its termination, a result of diverging political outlooks between Saudi Arabia and Egypt.

With the eruption of regional instability on the eastern shores of the Persian Gulf in a tide of anti-monarchical Islamic fervor, with the detente and espoused sentiment for union between Iraq and Syria, and with the settlement of Egyptian and Israeli differences outside of the comprehensive framework advocated by the pan-Arab network of states--Saudi-Egyptian political and diplomatic relations suffered a setback in 1979. However, the decisions to sever relations, to cancel the purchase of $525 million of F-5Es, and to terminate the military-industrial undertaking AMIO were made with the foreknowledge that Sadat would not be left out in the cold, without an alternative and potentially greater source of aid: the United States. Chapter VI examines American aid flows and obligations to Egypt under Sadat, and discusses the Arab "Carter/Marshall Plan" under consideration by the West.

The full-scale turn to the United States, however, has not been without its perils for Sadat, a self-styled critic of Nasser's overt dependency on the Soviet Union. The Iranian revolution vividly demonstrated that even a construed commonality of interests between patron and client contained no assurances of domestic acquiescence and stability. Equating one's local political and security interests with those of a superpower would involve inherent dangers. Egyptian financial reliance on the West, in addition, could recall bygone decades of imperial domination and produce an unwilling alteration of Egypt's political and economic direction.

But Sadat has had few misgivings in accepting larger doses of U.S. aid. As in the past, Sadat has been concerned both with the form and style of aid-giving and with the patron itself. Among other catalysts instigating the expulsion of the Soviets from Egypt, mismanaged patron-client relations and a coercive use of aid and military supplies headed the list. Sadat registered a similar reaction to a recent offer of $50 billion over 10 years by Arab heads of state--including those from Saudi Arabia, Syria, and Iraq--at the Baghdad conference of 2-5 November 1978. More than an index of political frustration, the resort to the expedient of financial bribery to seduce Sadat to abandon his unilateral peace initiative was a statement by Arab rejectionists of their belief in the economic imperative at the basis of Sadat's quest for peace with Israel and his Western orientation. Sadat found the coercive element entirely distasteful and rebuffed the politically-charged attempt at economic persuasion.

Sadat's decision to forego Soviet assistance and his rejection of the overt political manipulation attempted by other Arab states have contrasted with his acceptance of Saudi financial assistance and his restraint in criticizing whatever power has been exercised through the pulling of Saudi purse strings. In fact, few purse strings may have been pulled, for the Saudi-Egyptian relationship in the 1970s was, until 1979, one of mutual benefit and ideological, political, and military harmony. By and large, the interests of the two countries were mutually reinforcing both in the region and in their relations with the West. Even after the divergence of common political interests in 1979, Saudi aid, though in diminishing supply, continued to reach Egypt; by the beginning of the new decade there still was no occasion for complete severance of Saudi economic ties with Egypt.

II. EGYPTIAN CAPITAL REQUIREMENTS AND SAUDI ASSETS

Egypt was named one of 45 developing countries "most seriously affected" by the contemporary global economic crisis by U.N. resolution 3.202 in its Sixth Extraordinary Session convened in April 1974. Recognition of Egypt's inability to restore credit-worthiness while concomitantly pursuing industrialization on a wide scale has compelled Sadat and his economic advisers to hold the attraction of foreign financial assistance as a high priority. Relative to the abundance of its labor supply, Egypt has suffered more than any other Arab country from a shortage of capital. In strictly absolute terms, only the Sudan has a lower percentage of available capital to its capital requirements. Given certain assumptions, the following table estimates the capital requirements of selected Arab countries for the period 1975-1980:[1]

Estimated capital requirements of selected Arab countries for the period 1975-1980 (in billions of 1974$)

Country	Capital requirement (1)	Available capital (2)	Capital gap (3)	Percentage of (2) to (1)
Egypt	23.47	0.28	14.10	30.5
Sudan	7.21	2.411	4.700	33.4
Morocco	11.02	6.044	4.070	54.8
Tunisia	6.03	5.21	0.82	86.4
Syria	4.6	3.571	1.020	77.6
Lebanon	6.432	3.111	3.321	48.4
Jordan	2.6	1.152	1.448	44.3
Arab Republic of Yemen	1.2	0.48	0.72	40.0
Total	62.562	31.250	31.303	50.0

[1] The procedure used to arrive at these figures calculates the resources needed by each country from oil producers if the recipient countries are to grow 10 percent, under the standard Harrod-Domar type assumptions of a constant capital output ratio. El Mallakh, Ragaei and Mihssen Kadhim, "Capital Surpluses and Deficits in the Arab Middle East: A Regional Perspective," *International Journal of Middle East Studies* 8 (1977), p. 190.

Because of the serious discrepancies in population distribution and petroleum receipts throughout the Arab world, inequalities in income and investment distribution vary enormously within the region. In 1978, per capita investment was reported to range from a minimum of $28.9 in South Yemen, $57 in Egypt, and $65.3 in the Sudan, to a maximum of $2,373.4 in Saudi Arabia and $2700 in Abu Dhabi. The greatest disparity in developmental investments had reached the proportion of 1:42 between Egypt and Saudi Arabia and 1:93 between South Yemen and Abu Dhabi. One report estimated that of all Arab countries, Egypt had the lowest percentage of expenditures for development of total expenditures: 12.0 percent, as opposed to 54 percent for the Sudan and 60.2 percent for Saudi Arabia.[1] [See chart next page.]

Seen through this statistical magnifying lens, the plight of Egypt as it has emerged from its protracted history of financial dependency on patron-donors has been harsh. Notwithstanding, certain improvements in national income have helped to offset financial liabilities. For example, crude oil production of 21 million tons in 1977 and an expected 26 million tons in 1978 respectively brought in $525 million and an anticipated $750 million in revenues. Ali Gamal Nasser, Egyptian Minister of State for Economic Cooperation, reported that 1979 oil revenues would exceed $1 billion, nearly half of Egypt's total export earnings.[2] Suez Canal receipts estimated at $500 million in 1978 were estimated to reach $1 billion by 1980.[3] The Suez-Mediterranean pipeline revenues and incremental productivity increases have been additional money earners. But the need to rely on financial flows from abroad--either from Saudi Arabia or the U.S.--will remain unabated.

Significant capital outlays will be required if Egypt is to continue servicing its external public debt. As a percentage of exports

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[1] Sarkis, Nicolas, "Les Arabes Riches Et Les Arabes Pauvres," *Le Monde Diplomatique*, August 1978, p. 6.

[2] *The New York Times*, 10 December 1979.

[3] *Middle East Economic Digest*, 6 October 1978.

INVESTMENTS FOR DEVELOPMENT, 1977

	Populat. (million)	Total Expenditures ($million)	Expend. for Develop. ($million)	% of Expend. for Develop.	Expend. for Development Per Capita ($)
Abu Dhabi	0.5	4,750.0	1,350.0	28.4	2,700.1
Algeria	17.3	12,715.3	8,894.7	69.9	514.1
Saudi Arabia	8.0	31,557.3	18,987.1	60.2	2,373.4
Bahrain	0.26	627.5	346.2	55.5	1,331.5
Egypt	38.1	18,018.0	2,167.0	12.0	57.0
Iraq	12.2	13,630.0	7,962.0	58.4	652.6
Jordan	2.9	1,529.0	487.0	31.8	107.9
Kuwait	1.05	6,631.5	1,200.0	18.0	1,142.8
Lebanon	3.0	684.0	300.0	43.0	100.0
Libya	2.5	7,150.2	5,168.0	72.3	2,007.2
Morocco	17.2	3,570.0	2,400.0	67.2	138.0
Oman	1.5	1,838.0	522.0	30.0	368.0
Qatar	0.23	1,595.0	401.9	25.1	1,747.4
Sudan	17.5	2,100.0	1,143.0	54.0	65.3
Syria	7.5	4,608.0	2,812.0	61.0	374.9
Tunisia	5.8	1,600.0	702.0	43.8	121.0
North Yemen	6.9	* 451.5	190.0	42.0	28.0
South Yemen	1.8	* 120.0	52.0	43.0	28.9
TOTAL	144.24	113,175.3	55,114.9	48.7	382.2
*Estimations					(means)

Source: Nicolas Sarkis, "Les Arabes Riches Et Les Arabes Pauvres," *Le Monde Diplomatique*, August 1978, p. 6.

of goods and nonfactor services, service payments have been: 23.6 percent (1969), 25.4 percent (1970), 19.0 percent (1971), 28.4 percent (1972), 34.1 percent (1973), 30.5 percent (1974), and 25.7 percent (1975).

Though roughly 30 percent of Egyptian GNP is attributed to agriculture, Egyptian imports of food from abroad are large and have been steadily increasing. Egypt's most important commodity import has been wheat, and Egypt now imports almost two-thirds of its total wheat consumption. At a cost of around $125 a ton in 1978 (a total of million in 1978) wheat imports have been substantial: 4.1 million tons (1976), 4.3 million tons (1977), 4.6 million tons (1978), and a predicted 4.9 million tons (1979).[1]

The 1978-1982 Five Year Plan adopted in June 1978 by the Egyptian parliament was set at $32 billion. Plans to increase industrial production in the public and private sectors take precedence over plans to boost agricultural production. The plan's overriding objective, according to official reports, is to raise local production by 66.1 percent by 1982, an average annual growth of 10.7 percent. Projected investment in agriculture would amount to 8.5 percent of total allocations, a sum criticized for being inadequate by the Budget and Plan Committee of the Egyptian Parliament.

In short, Egyptian economic goals have been to increase exports and to help rates of domestic savings return to more normal levels. Essential to raise productivity for export growth have been large capital flows on concessional terms, large enough to offset short-term capital needs which might otherwise stultify long-term development. Sadat has continued pressing ahead to achieve these economic milestones in spite of the spectre of continued dependency on capital surplus nations, whether it be Saudi Arabia or the United States.

In stark contrast to the depleted state of Egyptian financial resources, the oil giants of the Middle East have been steadily

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[1] *Middle East Economic Digest*, 15 September 1978.

accumulating capital assets. According to the Morgan Guaranty Trust Company, the OPEC nations as a whole by 1978 were to have accumulated $155 billion in assets in other countries, $120 billion of which is held by Saudi Arabia, Kuwait, Qatar, and the United Arab Emirates.[1] Of the OPEC states, only Saudi Arabia, Kuwait, and to a limited extent Abu Dhabi, have had substantial surplus funds not immediately absorbed into local economic programs. This fact has distinguished the rich from the less rich in the Middle East and has permitted the three countries to disburse aid liberally. The Saudi economy has stood in better stead than that of Iran, Dubai, Qatar, Bahrain, or Oman, where the level of annual spending has exceeded the inflow of oil revenues.

Official Saudi statistics indicate that the Saudis have $26 billion in foreign exchange reserves, and private estimates double that amount. One statistical compendium has forecasted that Saudi foreign assets will pass over the $130 billion mark by 1981 [Figures in brackets are drawn from a supplementary source]:[2]

SAUDI OVERSEAS INVESTMENTS AND INCOME ($million)

Year	Value of foreign assets		Income earned from foreign assets	
1969	785		59	
1970	893		71	
1971	1,543		79	
1972	2,869	[2,303]	113	[125]
1973	4,786		200	[221.7]
1974	19,918		1,175	[1,305.7]
1975	38,704		2,389	[1,961.8]
1976	49,589		3,800	[3,226.6]
1977		[66,000]		[4,447]
1981 forecast	132,920		10,074	

[1] *The New York Times*, 25 November 1977.

[2] IMF, cited by O. Aburdene, "Saudi Arabia's earnings from its foreign assets," First National Bank of Chicago, 1977. *Economic Development of the Middle East Oil Exporting States*, The Economist Intelligence Unit Ltd., p.51. Figures in brackets come from an AMF study reported in the *Financial Times*, noted in *Middle East Economic Digest*, 4 May 1979, p. 21.

These massive capital assets coupled with the dual realities of peculiarly ripe regional political circumstances and favorable economic prognoses for Saudi Arabia led to the maximization of Saudi public sector aid to Egypt from 1974-1977. But in 1978-1980 with the Iranian turmoil, the Camp David accords, the continuing worldwide recession, and internal Saudi unrest, Suadi concessional assistance to developing countries, especially Egypt, sharply dropped in magnitude. The severing of Saudi-Egyptian diplomatic relations and the curtailment of joint industrial activities in 1979 brought an end to the favorable political climate for Saudi investment.

In addition to responding to political imperatives, Saudi aid to Egypt could be trimmed by a prevalent economic condition: the declining amount of Saudi surplus funds. One economic analyst has postulated that substantial balance of payments deficits could appear in Saudi Arabia by the end of 1985 due to the expenditure of massive amounts for internal development programs. "Consequently, after 1985 or even before, Saudi Arabia may be impelled to modify its development plans and to reduce the present emphasis on construction and, consequently, on foreign labor. *It may also have to revise its aid commitments to other countries.*"[1] This pessimistic prognosis was premised upon a high growth rate (13.5 percent) based on employment projections of the second Saudi Five Year Plan (1975-1980) and a 2 percent export income growth. But given the impact of inflation since the 1975 Five Year Plan began, a sharp cutback in spending could be anticipated as a cautionary policy to safeguard new Saudi industrial plans. This forecast, coupled with the fact that the Egyptian *infitah* has evoked little response from private Saudi and other Arab investors makes it appear unlikely that the capital demands of Egypt will be met by regional or Saudi funds. However, a more moderate growth rate and a significant increase in the price of crude oil could positively alter this outlook.

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[1]Smithies, Arthur, *The Economic Potential of the Arab Countries*, The Rand Corporation, R-2250, November 1978, Summary p. vi. Emphasis added.

The Egyptian Appeal for Regional Income Redistribution

Saudi-Egyptian economic inequality in its larger North-South perspective has been the object of much emotionally-charged debate. One set of reforms of the international economic order advocated by the developing nations has included the fulfillment of the goal agreed to by the developed nations that 0.7 percent of GNP be allocated to aid and that there be a debt moratorium for hard-pressed developing countries burdened by debt service and amortization payments. The psychological forum in which these ideas have been presented has been illuminating in that it has provided an insight into the subjective, non-economic incentives attracting Saudi financial flows to Egypt.

The campaign for massive financial assistance on the order of billions of dollars began to be mounted by Egyptian foreign policymakers and journalists alike following the 1973 war with Israel. Before the further warming in Egyptian-American relations later in the decade, Egyptian appeals were addressed to the wealthy Middle Eastern oil states whose revenues had dramatically increased precisely on account of the war and its byproduct the oil embargo. Drawing upon the reservoir of pan-Arab ideology and the ethical foundations of Islam, Egyptian officials unabashedly referred to the revenues from oil-rich Gulf states as "regional resources." The desperate pleas from Egypt, rhetorical though they were, were designed to strike at deep emotional chords which would recognize the continuing importance of Egypt, especially Cairo, for the Arab world at large--the maintenance of important educational and religious institutions, the preservation of historic landmarks, and the well-being of a people whose history and that of Islam have been continuous partners for over a millenium. Whereas the heartland of Arab puritanism, the protector of the early Islamic sites, and the religious soul of Sunni Islam has been Saudi Arabia, Egypt has been the symbolic embodiment of the culture, literature, and history of Arabdom. Egypt and Saudi Arabia, in this respect, have been portrayed as interdependent and mutually reinforcing entities.

This rhetoric had a social utility inside Egypt for it externalized a portion of the anxiety over the plight of the Egyptian economy, and it placed partial blame squarely on the shoulders of neighboring Arab states whose per capita income dwarfed that of Egypt. Largely for internal mass consumption, Egyptian rhetoric has been a relatively harmless way to vent hostility (economic jealousy converts to cries of "immoral inegalitarianism"); Arab presses periodically have waged hot wars of their own while the militaries have stayed relatively cool.

But the $15 billion sought from the Arab states never materialized, and during times of political tension in the Middle East, especially when Egypt was ostracized from radical Arab mini-summits, the tenor of Egypt's requests for aid became more strident and ethically oriented. For example, after the Baghdad summit of early November 1978, Sadat boldly contrasted the sharp dichotomy between Saudi wealth and Egyptian poverty:[1]

> The people of Egypt are not at all like the nouveau riche who behave with nouveau riche logic believing that money is everything. No, the people of Egypt are mature... they had a civilization long before the rest of the Arabs woke out of their medieval slumber.

Egyptian state radio was quoted as lambasting the "Arab petrol potentates who rape their peoples and are a sore in the Arab world." The radio accused the "extremely rich Arabs" of "thinking only of stocking petrodollars in personal accounts in foreign banks, to guard against every eventuality when the consciousness of their peoples inevitably awakens."[2]

Six months later, after the Camp David peace accords, Sadat accused Saudi Arabia ct paying off Arab countries to break relations with Egypt. In his May Day nationwide broadcast, Sadat said that Saudi Arabia had succumbed to hard-line Arab pressures and threats and that the majority

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[1]*Baltimore Sun*, 9 November 1978, with specific reference to oil-rich Arab states and their failure to endorse Sadat's peace with Israel.

[2]*The Christian Science Monitor*, 16 November 1978.

of Arab states "who severed their relations did so out of courtesy to Saudi Arabia. Saudi Arabia paid a price to the minority to sever these relations."[1]

One particularly polemical appeal came from the intellectual 'Abd al-Rahman al-Sharqawi, the famed Egyptian novelist. His instinctive grasp of the classic dramatic themes involved in Egyptian neediness--the privileged idle-rich Gulf Arab versus the overworked, dispossessed Egyptian peasant, the vanity of consumer materialism versus the worthiness of death in battle for the glory of Allah--addressed the elemental guilt and conscience of the Arab nation at large. To the oil-rich Arabs he directed his critique of the growing rich-poor gap:[2]

> You know that the oil revenues multiplied for two main reasons:
>
> Firstly, because of the hike in oil prices after the war and as a result of the war.
>
> Secondly, because the oil producing countries were enjoying economic stability and self security over the oil fields after they were threatened by an Israeli or American occupation!
>
> We might also agree that the availability of the military security after the October (Ramadan) War is what secured this economic stability.
>
> With what price was this stability secured? What should we say? Do we have to say then that the great price was the blood of our martyrs in the Sinai, the sweat of the workers in our country and the surrender of comforts and all necessities by the Egyptians? The price was the suffering of Egyptians throughout the long years to save even from their

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[1] *FBIS-MEA-[illegible]*, p. D7.

[2] 'Abd al-Rahman al-Sharqawi, *Ruz al-Yusuf*, 9 August 1976. Translated in JPRS Series on Near East and North Africa No. 1569, 13 October 1976. A favorite method of Sadat to blight the current Saudi monarch has been the lavishing of praises on the munificence of the prior Saudi king, the assassinated Feisal. Sadat considered the word of Feisal as bible and his concern for Egypt's welfare as unwavering. Another stock technique of polemic has been the raising of the spectre of political uncertainty in a future Egypt deprived of aid.

> daily food for the needs of military preparation for the protection of all the Arab destiny and not only of the Egyptian land. That is how the poor in Egypt became poorer in order for the wealthy from the oil producing Arab countries to become wealthier. Then you wealthy Arabs have raised the price of oil one time after another increasing the revenues each time and piling up the money while the oil importing countries made up their own losses by raising the prices of their exports. This is how the price of imported wheat and necessary commodities doubled and burdened the Egyptian budget.
>
> Investments in Arab countries like Egypt offer you more than that [9 percent interest from foreign accounts] and secure you the honor of participation in Arab development and the honor of being appreciated. The oil is not an inexhaustible resource so do not be vain for there is an end to everything.

In January 1976, Sayyed Marei, a former Minister of Agriculture and Agrarian Reform and President of the Egyptian Parliament, demanded compensation from the Arab oil-rich who had "profiteered" from Egypt's wartime economic and military devastation. He drew upon what he considered to be an appropriate analogy--the U.S. Marshall Plan to Europe in the post-WWII period. As the United States had bailed out European states which had suffered tremendous economic blows during the war for interests shared by the U.S., the Saudis and other oil-rich Arab states were now being called upon to institutionalize a similar program. Such an Arab Marshall Plan would lead to Egyptian reconstruction through the allocation of generous loans and enormous grants. Marei voiced his plan at the Cairo Joint Symposium on Long-Range Planning and Regional Integration Among Arab States. His proposal drew little, if any, response from the Saudis.[1]

[1] Waterbury, John, "LRPing in the Arab World, [illegible], Vol. XXI, No. 1., May 1976.

KEY ECONOMIC INDICATORS FOR SAUDI ARABIA

	1969	1970	1971	1972	1973	1974	1975
GNP Current Prices	2,830	2,960	3,770	4,870	8,010	23,510	31,580
Population (millions)	7,235	7,360	7,487	7,616	7,745	8,008	8,296
GNP Per Capita '75-US$	1,130	1,250	1,420	1,620	2,070	2,830	3,010
Imports	747	711	817	1,136	1,944	3,993	6,886
Exports	1,700	2,171	3,163	4,518	7,696	30,995	27,656
External Debt (disb.)	..	..	..	328	298	475	588
Reserves (year end)	607	662	1,444	2,500	3,877	14,285	23,319

KEY ECONOMIC INDICATORS FOR EGYPT

	1969	1970	1971	1972	1973	1974	1975
GNP Current Prices	6,420	6,910	7,310	7,770	9,180	10,090	11,350
Population (millions)	32,501	33,329	34,080	34,840	35,619	36,350	37,096
GNP Per Capita '75-US$	190	210	220	240	250	280	310
Imports	638	787	904	877	908	2,349	3,751
Exports	745	762	789	825	1,125	1,516	1,40[illegible]
External Debt (disb.)	1,451	1,432	1,661	1,571	1,746	1,976	5,100
Reserves (year end)	145	167	149	139	363	356	294

SOURCE: OECD, "Geographical Distribution Of Financial Flows To Developing Countries," 1977.

III. DENASSERIZATION AND THE *INFITAH*

The realignment of Egypt's economic, political, and military relations with the West and with Saudi Arabia which followed the October 1973 war and the Arab oil embargo was enhanced by Sadat's initiation of a many-tiered process of reforms collectively known as deNasserization. The scope of deNasserization broadened throughout Sadat's rule and it came to encompass a reshaping of the political structures of Egypt, economic liberalization and greater decentralization, and political and military shifts in the international arena which would complement these internal developments. Sadat effected no abrupt changes upon his ascent to power; rather, he conceived of a long period of transition wherein he could establish the framework that would enable him to breach the status quo as bequeathed to him by Nasser. Though several reforms actually preceded the outbreak of war with Israel in October 1973, it is only after this war that the economic dimension of Egypt's plight began to take precedence over the military dimension. The war provided both fertile ground for Sadat to receive greater military aid from the Soviet Union, and an opening for greater economic aid from the oil-rich Arab states of the Arabian Peninsula. For awhile, Sadat successfully drew upon these two politically diametrically-opposed sources of aid.

But Sadat's long-range strategy entailed more than just the attraction of economic and military assistance prompted by military confrontation and crisis. He surmized that to draw Egypt out of the vicious circle of military and economic dependency would necessitate a fundamental reassessment of Arab socialism and the Soviet economic model as applied to Egypt by Nasser. Egypt's economic liberalization and opening to the West, the *infitah*, was thus the product of Sadat's own disenchantment with the social and economic underpinnings of Nasserism, and with the inadequacy and unreliability of non-Western aid sources for the long-term development of Egypt.

With painstaking care not to confront the broad Arab socialist movement in general, Sadat drew upon the compelling and positive principles of the Nasserist revolution while emphasizing its mistakes and deviations. After his initial months in power, Sadat began to assert values in his public addresses and lectures which circuitously repudiated aspects of Nasser's social and economic policies. Sadat's reorientation of Egyptian policy suggested first that Nasserism had not been in stride with the times because it did not sufficiently promote science and technology. Drawing upon this logic, Sadat attributed the 1967 defeat to technological deficiencies. Second, Sadat claimed that Nasserism had been too heavily derivative of Marxist and other imported notions, and had not been properly distilled from the native, Islamic heritage.

As Sadat took the revolution to task, he spoke of the need to reform it and return it to its sources, because under the leadership of Nasser, initial long-range goals had not been achieved. In his prescription for returning to the source of the revolution, however, Sadat did not intend to resurrect the messianic spirit of Nasserism. Though the ethos of the bygone Nasser years would in fact be shunted aside, the rationale for evoking a return to the revolutionary spirit would be to supercede the Nasserist legacy with a broader-ranging economic strategy. The masking of what was actually an innovation had a dual rationale. First, the rhetoric was designed to dispel notions that a partial return to free market mechanisms would be a *de facto* retreat to pre-Nasser colonial domination in Egypt's economic affairs. Second, because the criticisms of Nasser fell within the strictures of modernist Islam, the reorientation would appeal to the conservative Arab states, probable future benefactors. Sadat couched his critique of the 1952 revolution in fundamentalist Islamic terminology and in the system which believed that the true Islam is that taught by the Prophet and the 'Elders' (*salaf*) of the first generation of Islam. (Adherents to the puritannical system of beliefs were known as *Salafiyya*.[1]) However, Sadat knew that these were only the religious and philosophical ingredients in his formula for economic reform; they would not have long-range appeal to Saudi Arabia and other Gulf oil-rich, market-oriented states were they not to dovetail with concrete legal reforms affecting Egypt's laws and institutions.

Economic Reforms: Laws and Institutions

Sadat did not set out to do away with the public sector, the regulatory institutions, and the planned development goals established under Nasser. He recognized the social appeal of public sector schemes begun by Nasser and instead he attempted to expedite overall economic and social goals by creating new machinery for stimulating foreign investment in *non*-public sector areas. To create a new investment climate which would inspire foreign confidence in Egypt, Sadat worked through his Parliament to promulgate new laws and establish institutions destined to elimate the possibility of nationalization of foreign funds. Sadat effected these reforms in stages over a number of years, and when taken together, they terminated many of Nasser's economic programs in the hope of attracting a fraction of the growing accumulating capital surpluses of neighboring rich Arab states.

Two major steps along the pathway of economic transition were pursued early in Sadat's reign. First, in 1971, Law No. 65 concerning the investment of Arab funds and the Free Zones was passed. An Egyptian International Bank for Foreign Trade and Development (renamed the Arab International Bank for Foreign Trade and Development on 15 September 1972) was established on 10 October 1971. Its original capital was 10 million sterling pounds subscribed by the Central Bank

[1]Placing Sadat within the tradition of the *Salafiyya* is suggested by Shimon Shamir in his collection of essays in Hebrew, *Mitzraim Bi-Hanhagat Sadat (Egypt Under Sadat: The Search for a New Orientation)*, Dvir Co. Ltd., Tel Aviv, 1978.

of Egypt. The primary function of the new bank was to finance the foreign trade of Egypt and to be the agent for foreign investors. Exempt from all taxes and regulations, the bank would deal entirely in convertible currencies. Designed to attract Arab capital, Law No. 65 granted Arab investors special privileges.

The second step taken was the promulgation of an investment law in June 1974. Public Law No. 43 of 1974 was designed to encourage Arab and foreign investment in export-oriented industry, and in mining, power, tourism, transport, land reclamation, banking, and housing (Arab capital only). It provided for a five-year tax holiday (Article 16), freedom to repatriate principal and profits (Article 21), and absolutely guaranteed foreign investors against nationalization or expropriation (Article 7). The 1977 amendments provided for more frequent use of the parallel rate of exchange, and for the first time, permitted Egyptian private investors themselves to benefit from the law's provisions. The investor in Egypt acquired the right to transfer his capital abroad immediately, removing the stipulation of its remaining five years in Egypt. The four chapter headings of the Law No. 43 as amended by the 1977 Law No. 32 were: Investments of Arab and Foreign Capital, Joint Ventures, General Authority for Investment and Free Zones, and Free Zones.

According to Ibrahim M. Oweiss, chief of the Egyptian Economic Mission to the United States, the Egyptian government had approved 641 foreign investment projects, valued at $3 billion by 1977 since the launching of the open door policy in 1974. "Of the total approved, 161 projects involving investments of $262 million are already in production, and 158 projects worth $625 million are under construction."[1] Another report indicated that the Minister of Economy and Economic Cooperation, Dr. Hamed Al-Sayeh, had stated that the value of foreign investment projects was $2.6 billion in 1978 and was expected to rise

[1]*The New York Times*, 1 December 1977.

to $3.7 billion in 1979. By March 1978, 440 free zone projects worth $1.37 billion had been set up, and an additional 193 worth $506 million were approved or put in hand by the General Authority for Investment and Free Zones by March 1979.[1]

Despite claims to the contrary, the success of the investment laws has been less than anticipated. Arab and Western perceptions of Sadat's instability and the continued tension with Israel contributed to a basically inhospitable environment for investment. Law No. 65 attracted little investment except in real estate: By June 1975, 65 percent of all planned investment had been earmarked for tourism and hotel facilities, housing and construction.[2] One official of the U.S. Agency for International Development said that although Law No. 43 had not met Egyptian expectations, it had kept foreign investors and governments interested in potential ventures in Egypt.[3]

One of the continuing problems with attracting foreign investment has been the two-tier foreign exchange system created in 1966 at the instigation of the International Monetary Fund (IMF) when Egypt refused to devalue the pound. The official rate was to be abolished in January 1979, leaving the only exchange rate as the parallel or incentive rate. One effect of this planned measure would be the raising of cotton prices. The farmers would receive higher prices for their cotton thereby allowing the cancellation or reduction of consumer subsidies to proceed with fewer political repercussions. The change chould have a positive effect on Western investment, as it would remove any "lingering doubt" about Egyptian intentions and it would lead to important changes in the domestic economy.[4]

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[1] *Middle East Economic Digest*, 23 March 1979, p. 24.

[2] Baker, Raymond W., *Egypt's Uncertain Revolution Under Nasser and Sadat*, Harvard University Press, 1978, p. 145.

[3] Interview with Jim Norris in Cairo.

[4] *The New York Times*, 5 December 1978.

Egyptian Economic Reform and the IMF

In the past several years, over twenty nations borrowing from multilateral funds have taken stringent measures to qualify for the approval of the International Monetary Fund (IMF) for loan applications. By this linkage, debts in the hundreds of millions of dollars stand a better chance of being guaranteed against defaults by poorer countries. Technically, the IMF cannot mandate specific economic policy changes. But until it is satisfied with a country's program, the IMF will not lend a country money. For this reason, the economic plans Egypt has submitted to the IMF for approval are, by and large, those recommended by the IMF. Even though linkage of IMF guidelines with Egyptian economic reform has been explicitly disavowed (economic reform began "long before" Egypt had links with the IMF, according to Dr. Hamed Al-Sayeh, Egyptian national economy minister), there is much hinging on the IMF recommendations. The Egyptian economic advisors must continually bear in mind that to keep the Saudi and American contributions forthcoming, satisfaction of IMF guidelines--tantamount to granting a type of "donor insurance"--is mandatory.

Saudi Arabia and other major financial contributors to the Egyptian economy have been influential in pressing Egypt to accede to reforms proposed by the IMF. The IMF recommendations for reform of Egypt's economy have been reported to include:[1]

1) removal of subsidies for more domestic industries, and the rationalization of prices
2) reduction of bank financing of the Government deficit while sustaining the 8 percent real growth of GNP
3) raising of interest rates on local bank loans
4) continued pressure for wage restraints even with a steady rise in domestic prices

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[1] *The New York Times*, 2 and 14 June 1978.

In short, a three-year domestic austerity program imposed by the IMF would be instigated in 1978, and in return, Egypt would receive a three-year loan for up to $720 million.

Egypt has imbibed the IMF economic medicine in order to build Saudi and other, multilateral confidence which would enhance financial support. At the June 1978 meeting of the Consultative Group on Egypt (a 14 nation conference held under the auspices of the World Bank), Egypt successfully attracted the funding necessary to plug its balance of payments hole estimated at $1 billion. Donations were pledged by Saudi Arabia ($650 million) and other Arab oil states, and Japan and the IMF itself.[1]

But in December 1978, the IMF did not allow Egypt to draw the second tranche ($77 million) of the $720 million because of budget control failures and disturbing consumption patterns. Though Egypt undertook to limit the 1979 budget deficit to $1.2 billion, the preliminary bedget deficit was in the $1.7-2.2 billion range. Moreover, Egypt underspent on capital goods imports in 1978 by $600 million. Renegotiations took place throughout 1979, but by late 1979 the original credit facility had fallen through. Negotiations for a new three-year credit facility were underway, but if the IMF failed to reach agreement with Egypt, a one-year credit for about a third of the amount would probably be considered.[2]

IMF recommendations must delicately balance technical diagnoses with political climates, for the social costs of economic austerity measures are often high. Upon suggestion or implementation of IMF recommended measures, the economies of developing states have often been shocked. When, at the end of 1976, Egypt had run up a $7.6 billion nonmilitary debt and an annual trade deficit of $2.4 billion,

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[1] *The New York Times*, 17 June 1978. The Consultative Group on Egypt first met in May 1977. Member states as of January 1979 included Belgium, Canada, France, Iran, Italy, Japan, Kuwait, Netherlands, Saudi Arabia, Switzerland, the United Arab Emirates, U.K., U.S., and West Germany.

[2] *Middle East Economic Digest*, 8 December 1978; 12 January 1979; and 4 January 1980.

the IMF imposed strict fiscal conditions for standby credits to bail Egypt out.[1] As a consequence, on 18 and 19 January 1977, the largest riots since Black Saturday of January 1952 erupted in Egypt when Sadat announced the termination of certain food subsidies to help reduce the huge budget deficit. After an estimated 80 people were killed, the Government retreated and restored the subsidies. IMF-imposed economic reforms of a similar nature provoked rioting and bloodshed 15 months later in Peru. In Turkey, Prime Minister Bulent Ecevit has complained regularly that the IMF and the West do not understand the political consequences of stringent economic reforms. According to his rightwing opposition, such reforms would amount to "selling out to Western domination."[2]

Since the January riots in 1977, Sadat has waded even more cautiously in the waters of economic reform. He saw fit to give less than full support to the recommendations of his own principal economic adviser, Dr. Abdul Moneim Al-Qaissouni. Appointed by Sadat in 1974 to guide Egypt along the road to a free-enterprise economy, Dr. Qaissouni had his mandate enlarged in November 1976 when Sadat created a new post for him in a rearranged cabinet--deputy prime minister for financial and economic affairs. To save Egypt from bankruptcy, Dr. Qaissouni chose his own team of economic ministers and rescheduled Egypt's $8.3 billion civilian foreign debt.[3]

But in proposing further basic reforms, especially in the public sector, Dr. Qaissouni was rebuffed first by the economically politicized masses, and then by Sadat. Dr. Qaissouni wanted to trim the tremendous government consumer subsidies (about $1.7 billion in 1976) and to reduce the number of people on civil service payrolls. The economic ministers thought such measures would favorably impress foreign investors, and would induce the IMF and foreign banks to provide low-interest loans

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[1] *The Christian Science Monitor*, 20 March 1978.

[2] *Washington Post*, 6 February 1979, p. 13.

[3] *Economist*, 22 April 1978.

to meet the remainder of the budget deficit. But in May 1978, Dr. Qaissouni left the ministry. Whether illness or political infighting prompted Sadat to replace Dr. Qaissouni, the fact remains that he had directed Egypt's economic reform program with only partial success and with reserved popular and presidential approval.[1]

Egypt's Political Realignment with the West

The necessary shift of gear in the economy found its complement in the political arena. Referring to his announcement to the Egyptians 24 years previously of the revolutionary achievement of July 1952 (Sadat himself had been one of the Free Officers), Sadat said he felt honored once again to responsibly return a measure of political authority to the Egyptian people. In a speech delivered at Alexandria University on 26 July 1976, Sadat announced that the revolutionary legitimacy, with all it had entailed, had terminated, and after the May (1971) revolution and the October War, the stage of lawful legitimacy had begun.[2]

The political liberalization at home and the economic open-door were coterminous policies designed to put a halt to the tightening of Egypt's economic straits. Serious and long-term investment would come, Sadat believed, with evidence of not only his longevity in office but also the perpetuation after him of economic reforms and structures associated with the open-door policy. Thus, to broaden the basis of his support for his economic programs, Sadat took major steps to decentralize economic decision-making and to encourage participation in the private sector. Political parties were permitted to form within the framework of official guidelines, and remnants of the pre-Nasser

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[1]A subdued power struggle between Dr. Qaissouni and Prime Minister Mamdouh Salem led to Sadat's dismissal of the former according to *The New York Times*, 10 May 1978. But according to Dr. Hamed Al-Sayeh, Egypt's national economy minister, Dr. Qaissouni departed because of declining health. *Al-Nahar Arab Report and Memo*, 25 June 1978.

[2]*FBIS-MEA-76-145*, pp. D-5,D-6.

Wafd and of the socialist Nasserites now found political expression. Sadat hoped to foster in Egypt a political climate concordant with the pluralist West, and even with some quasi-socialist Arab states. As the legality of nationalization was terminated and the overt use of political repression less frequently visible, Sadat hoped to improve relations with the United States and Saudi Arabia.

In recognizing that the conflict with Israel had kept most Western corporations out of Egypt, Sadat pressed ahead with resolving the protracted conflict. The peaceful transition to normalization of relations with Israel was a prerequisite, Sadat felt, for the desired economic growth. Egyptian-Israeli tensions had kept foreign investment at insignificant levels, and had inordinately taxed the economy with diversions of scarce resources toward the military sector. Preserving the delicate balance of keeping both the U.S. and Saudi Arabia (or the moderate Arab camp) relatively satisfied, Sadat negotiated by stages the pacification of the Egyptian-Israeli border. This process, though drawn out, was hastened by the November 1977 initiative and the Camp David accords of September 1978. Sadat had been willing to venture into direct discussions with Israelis despite his being bombarded by severe criticism from Arab neighbors, including the Saudis after the Baghdad Conference in November 1978.

Knowing in advance that his dealing with the West and his accommodation with Israel would alienate certain Arab states, especially those favoring a comprehensive settlement, Sadat nevertheless chose to align Egypt with Western-oriented regimes inside and outside the region. Whatever initial sympathies Egypt may have harbored for the Soviet line after his assumption of power, they were challenged by the threatening Ali Sabry anti-Sadat coup attempt in 1971 and the communist-inspired attempt to undermine his Sudanese neighbor, Colonel Ja'far al-Numayri, in July 1971. These events alarmed Sadat, and following the October 1973 war, the Israeli threat began to be overshadowed by the communist one. In the latter half of the 1970s, Sadat's anti-communist inclinations grew in relation to Soviet support for anti-status quo movements in Ethiopia, North Yemen, Oman, and later in Shaba Province, Zaire.

The other major factor motivating Sadat to turn to the West and to the oil-rich Arab states was the greater financial and military reliability of the West. Sadat's retrospective speeches and writings indicate that the turn away from the Soviet orbit was taken, in part, because the Soviets were not fulfilling promises to send military supplies and parts on schedule. The Soviets were also unwilling to repair weapons shipped to Egypt which were imperfect upon arrival. In general, Sadat found policies affecting Soviet aid flows to be coerceive and unreliable.

Why Sadat turned to Saudi Arabia instead of to his western neighbor, Libya--especially since prior to the 1973 war unity between the two states had been in the making--has been the focus of some speculation. Qaddafy might have been anxious to unify the two states so as to broaden his power base and extend his economic and political policies. Had it not been for the October War, and the rift which it created between Qaddafy and Sadat, a merging of Libyan capital and Egyptian manpower might have been realized. As late as September 1973, Sadat had been theoretically wedded to incremental Egyptian-Libyan union; but after the war, the cementing of the Saudi-Egyptian axis, and Sadat's turn to the West, even surface cordiality between the two north African leaders failed to survive. After the divorce, and the gradual polarization of Arab states, Sadat's solicitation of Libyan aid flows became politically untenable. Libyan and Egyptian perspectives of regional and ideological issues began to diverge, as Sadat began to turn Egypt away from Nasser, a man on whom Qaddafy had modelled himself. Sadat perceived Qaddafy as too volatile and irritable and too rhetorically pan-Arab and socialist.

Had Sadat managed to straddle both Saudi Arabia and Libya, to wean concessions and aid from both West and East, his political options might very well have decreased. With respect to delivery of weapons and fulfillment of aid pledges, the behavior of the Libyans, as clients of the Soviets, would have been manipulatory and intolerable.[1] Ever since Qaddafy had taken over the reins of power in Libya, the full financial backing which the previous Libyan king had pledged had never materialized. According to Sadat, during the Arab summit at Rabat in 1969, Libyan King Al-Sanussi had pledged 20 million pounds (Egyptian) to Egypt, only half of which Nasser received before Qaddafy's coup later that year. Only after prodding by Saudi King Feisal did Qaddafy promise to fulfill his predecessor's pledge of a further 10 million pounds. This money, however, never reached Egypt.[2]

Together with financial reliability and credibility, another factor inducing Sadat to turn to Saudi Arabia was the consistent Saudi political posture toward the Egyptian state. Sadat was generous in his acclaim for Saudi King Feisal as a calm man of integrity, and he acknowledged his support after the 1967 and 1973 wars with Israel. "When we were defeated in 1967, who provided the aid for Egypt to *replace the canal revenue*? Feisal, the amir of Kuwait, and King Al-Sanussi." Sadat felt compelled to note the irony of the situation in which Nasser had to depend on these conservative, non-revolutionary forces for post-war aid. "Nasser was in fact taught a lesson in 1967 when he realized that the only Arab countries that helped him after the defeat belonged to his arbitrary reactionary category."[3] Sadat, of course, was quick to praise his Saudi creditors, who made the 19[illegible]

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[1]The Libyans have allegedly even been negligent toward other Soviet-backed allies in the Middle East. For example, [illegible] (Kuwait) reported that Libya broke a pledge to give Syria [illegible] million to buy 500 Soviet-built tanks. Libya made the promise at the February 1978 Algiers summit. Libya refused to pay for the tanks after Syria failed to counter the Israeli incursion into South Lebanon in March 1978. Noted in [illegible], 15 September 1978.

[2][illegible], 18 July 1977, p. D-23. In his May Day speech, 1979, Sadat praised King Feisal for providing the Egyptian government with a 25 million pound sterling draft to make up for Qaddafy's default. [illegible], 2 May 1979, p. D-12.

[3]Al-Sadat, Anwar, [illegible], Harper and Row, 1977, p. 211.

war with Israel such a cataclysmic world event. Sadat, it may be concluded, was responding to favorable Saudi overtures, and he hoped to create a situation even more conducive to increased Saudi support by turning away from Qaddafy and expelling the Soviets from Egypt. The flow of financial resources from Saudi Arabia would be greater, Sadat assumed, once the Saudis knew that their resources would not be filtered to the Soviets for the purchase of weapons.[1]

During the five years following the October 1973 war, the Saudi-Egyptian relationship had to weather few storms. The Saudis did not criticize the 1975 Sinai disengagement agreement between Egypt and Israel, and after the Sadat initiative of November 1977, the Saudis elected not to join the Arab rejection-front states at the summits in Tripoli, Libya (December 1977) and in Algiers (February 1978). Even after the signing of the Camp David accords in September 1978, the hard-line element in the House of Saud did not prevail. Saudi financial aid flows to Egypt for the development of its armed forces did not cease in light of the Sinai agreements and the Camp David accords, themselves, but only as a result of subsequent pan-Arab conferences. Egyptian Defense and War Production Minister Kamal Hassan Ali told a parliamentary foreign relations committee that some Arab countries (perhaps the extreme confrontation states Libya and Iraq) had completely stopped financial assistance to Egypt because of the Sadat initiative.[2]

The turning point in the Saudi-Egyptian relationship came a few months after the Camp David accords. Resolutions emanating from the Baghdad summits of November 1978 and March 1979 ostracized Egypt and imposed economic and political sanctions against Sadat. In effect, the signing of the Egyptian-Israeli peace treaty had compelled the

[1]Following the Rabat 1974 summit, King Feisal had serious reservations concerning the Saudi purchase of arms for the confrontation states from the Eastern/Soviet bloc. He was ready and willing, however, to purchase the arms if they were from Western sources. *Iraqi News Agency* and *Al-Safir*, 1 November 1976, as noted in *FBIS-MEA-[illegible]*.

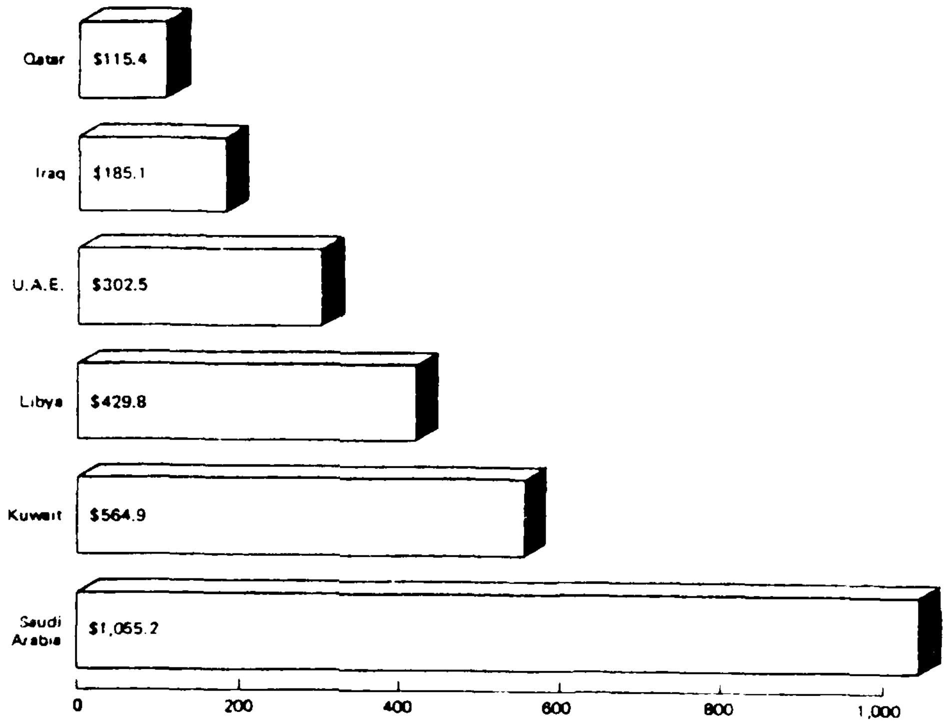
[2]*Middle East Economic Digest*, 15 December 1978.

Saudis to tow the prevailing pan-Arab line in order to forestall what could have been a polarization of the Arab world into Western and anti-Western camps. Between these two Baghdad summits, the Iranian revolution sent shock waves throughout the Islamic world which many interpreted as foreshadowing a time of regional turbulence and crisis. The revolution forced the Saudis to turn further inward and to carefully reassess their domestic and foreign policies with the new Islamic magnifying lens. The foremost lesson of the Iranian revolution appeared to be that overt and substantial reliance on the U.S., or for that matter on the Soviet Union, would not be acceptable Islamic policy. The maintenance of political and economic sovereignty had become a persuasive criterion by which the Islamic ruled would judge the acceptability of their rulers. The Iranian revolution served to reinforce the dictum that without the support of the masses the ruling regime would topple. Being one of only a few remaining Islamic dynastic monarchies, the Saudi political elite took warning and began to set its house in order. The break with Egypt in April 1979 was one of the first, clear indications that the Saudis were reassessing their political alignments in the region. It was a relatively painless way for the Saudis to symbolically distance themselves from any evolving pro-Western alliance system in the region. Only later, after the unanticipated seizure of the Grand Mosque in Mecca by seditious, armed bands in November did the Saudis focus on matters of internal security by shaking up the Saudi military establishment.

IV. SAUDI AID THROUGH BILATERAL AND MULTILATERAL INSTITUTIONS

The lion's share of Saudi foreign aid and investment has emanated from the Saudi public sector, and consequently Saudi public officials fill the prominent role of disbursing funds from the treasury. Saudi Arabia has been one of the world's leaders in earmarking public revenues for the benefit of developing, often impoversihed states. Whereas the U.S. allocates approximately .25 percent of its GNP for aid to poorer countries, Saudi Arabia, Kuwait, and the United Arab Emirates give more than 5 percent of their GNP for such ends. [The U.N. recommended level of official development assistance has been 0.7 percent of GNP.] The following chart illustrates the dramatic Saudi preponderance in the Arab multilateral funds extending aid to states within the Islamic fold:[1]

Major Donors to the Arab Multilateral Development Funds ($million)

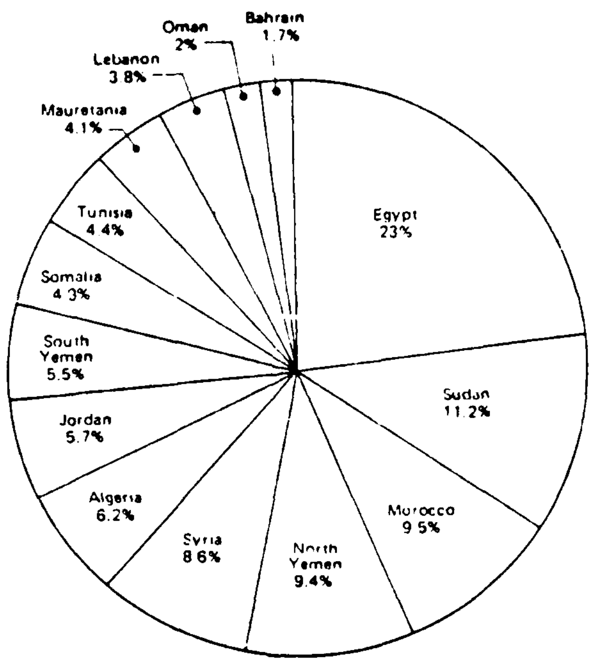


[1] Law, John, *Arab Aid: Who Gets It, For What, and How*, Chase World Information Corporation, April 1978, p. 7.

The major multilateral funds through which Saudi aid has been channeled to Egypt are the Arab Fund for Economic and Social Development (established in 1968), the Islamic Development Bank (1975), the OPEC Special Fund (Balance of Payments Support Program, 1976), the Gulf Organization for the Development of Egypt (1976), and the World Bank and the IMF.[1]

AFESD, IDB, OPEC Special Fund, and AMF

Based in Kuwait, the Arab Fund for Economic and Social Development (AFESD) encompasses all 21 members of the Arab League, and its principal activity is providing long term loans. Capitalized at $1.4 billion the fund has a total authorized potential lending resource of over $4 billion. Saudi Arabia (19.98 percent) ranks a close second to Kuwait (20.25 percent) in being the largest shareholder. Egypt itself (10.93 percent) is the fourth largest shareholder, following Libya (12.89 percent). As of 1978, Egypt had received the largest share of assistance from AFESD:[2]



[1]For more information concerning these multilateral Arab funds, see John Law, op. cit.

[2]Ibid., p. 103.

In 1979, following the second Baghdad Conference, Egypt was expelled from the AFESD, but a spokesman for the AFESD said that as long as Egypt did not default on interest payments or break contractual obligations to AFESD, projects already underway would be maintained. The fund had invested $350 million in seven projects in Egypt, including widening and deepening the Suez Canal, a water and sewerage program at Helwan, cement works, fertiliser plants, and expanding electricity supplies.[1]

The Islamic Development Bank (IDB) based in Jiddah, Saudi Arabia, is capitalized at $2.4 billion. The IDB's members include all members of the AFESD, except Iraq, and other Islamic non-Arab states. About 80 percent of the IDB capital has been allocated by 5 Arab states: Saudi Arabia (26.14 percent), Libya (16.34 percent), the United Arab Emirates (14.38 percent), and Kuwait (13.07 percent). Saudi Arabia is the largest contributor to the IDB's capital assets, and Egypt--following Qatar, Algeria, Indonesia, and Pakistan--ranks fifth. The IDB attempts to distribute aid packages, preferring equity participation to mere disbursements.

Established in January 1976 by the OPEC Ministers of Finance, the OPEC Special Aid Fund for developing countries was an attempt to coordinate OPEC aid-granting programs for non-OPEC developing countries and for international development institutions whose beneficiaries are developing countries. Capitalized at $800 million, the fund has both Arab and non-Arab contributors, though over 50 percent of the original 1976 contributions ($826 million) and of the 1977 replenishment ($751.5 million) were made by Arab states. Saudi Arabia's financial support has accounted for a full 25 percent of OPEC Special Fund assets. The Fund's loans are interest free, usually have a maturity of 20-25 years, and are committed to project support as well as balance of payments support.

By May 1979, the OPEC Special Fund had extended loans totaling $526.11 million, of which $29.20 million went to Egypt roughly split

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[1] *Middle East Economic Digest*, 1 June 1979.

between balance of payments support and project support. Of the more than sixty countries receiving aid from the OPEC Special Fund, only India ($55.8 million) and Pakistan ($45.45 million) had received amounts exceeding those earmarked for Egypt.[1]

Saudi Arabia has also been a major contributor to the World Bank and the International Monetary Fund (IMF), though statistics detailing specific Arab states' donations are not available. Saudi Arabia pledged $2.5 billion of the planned $10 billion IMF facility to help poor nations pay their oil bills. The Saudi pledge, largest among the 14 prospective donors, outranked the $1.7 billion offered by the United States.

Having contributed $130 million, Saudi Arabia has been the largest subscriber to the Arab Monetary Fund (AMF), a regional version of the IMF. Created in 1975 and established at a convention in Rabat on 28 April 1976, the Arab Monetary Fund comprises the 21 Arab League member states and has headquarters in Abu Dhabi. According to Jawad M. Hashim, the President of the AMF, the guiding aim of the AMF "will always be to act as a catalyst for Arab economic development and integration."[2] In addition, the fund has financed deficits in the balance of payments of member countries and has taken measures to reduce the differential in borrowing capability between rich and poor Arab states.[3]

Similar to the IMF in purpose--indeed the AMF charter was drawn up by IMF personnel who act as AMF advisers--the AMF has been designed to complement the IMF and will grant loans to member countries with interest

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[1]Cayre, Genevieve, "Le Fonds Special de L'OPEP," *Magreb Machrek*, March 1978, p. 65. The origins, structures, and goals of the OPEC Special Fund are admirably summarized in this article. See also Abyad, Samir, "The OPEC Special Fund Keeps Its Promise," *Al-Nahar Al-'Arabi Wa Al-Duwali* (in Arabic), 21-27 May 1979, p. 23, translated in JPRS Series on Near East and North Africa No. 1996, 18 July 1979, pp. 3-5. This article explains that a recent report presented by the secretariat general of the fund shows that the main share of the fund's aid has now gone for project support rather than for balance of payments support.

[2]*The New York Times*, 20 June 1978.

[3]Central Bank of Egypt, *Economic Review*, Vol. XVI No. 3 & 4, 1976, p. 189.

rates similar to those of the IMF. In addition, members will be privileged to borrow up to four times their contributions in one year. This would enable Egypt to borrow annually approximately $375 million.[1] In this way the AMF has hoped to reduce the dependency of poorer Arab states and help them avoid the stringent economic reforms proposed by the IMF, the likes of which provoked the January 1977 riots in Cairo.

But as of 1979, the Arab Monetary Fund had not yet made its first loan. Following the second Baghdad conference of Arab states which denounced Sadat and his unilateral initiative, the AMF suspended Egypt's membership on 17 April 1979.[2]

Gulf Organization for the Development of Egypt (GODE)

In recent years, the most important of the multilateral funds through which Saudi Arabia has contributed aid to Egypt has been the Gulf Organization for the Development of Egypt (GODE).[3] Saudi Arabia and the three Gulf states--Kuwait, Qatar, and the United Arab Emirates--created GODE in the early months of 1976, and by July a fund had been established with capital resources of $2 billion. 40 percent of the $2 billion was provided by Saudi Arabia, 35 percent by Kuwait, 15 percent by the United Arab Emirates, and 10 percent by Qatar.

Originally, GODE was formed by the Gulf states to establish companies to undertake industrial, agricultural, and housing development projects in Egypt. Where projects were already extant but in need of financing, capital assistance would be made available with medium and long-term loans. GODE appeared on the outside to be project-oriented, but with an insufficient staff to conduct feasability studies, funds have not been allocated for projects.

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[1] *Financial Times* (London), 26 September 1977.

[2] *The New York Times*, 19 April 1979, p. 8.

[3] GODE, or alternatively GADE, Gulf Authority for the Development of Egypt.

The founding rationale of GODE has been altered by short-term exigencies. Instead of project development, GODE has allocated almost all of its original capitalization to helping Egypt bail out of pressing short-term commitments.[1] The director of the organization in April 1978, Abu al-Nur al-'Atiqi, asked Egyptian planners for industrial and agricultural projects, but no projects were submitted. "Egypt was supposed to use the authority's capital over a period of five years, but it preferred to use it in one year to pay back its delinquent short-term loans, for which it was paying a high interest rate. It has also used a portion of these funds to pay for its food imports and for other goods that are necessary for operations which it had imported."[2]

Following the January 1977 food riots in Cairo, Saudi Arabia and the other oil-rich Gulf states announced a massive billion-dollar aid package designed to keep Sadat in power. By March 1977, within the framework of GODE, these states agreed to a loan of over $1.5 billion (reportedly at 5 percent interest over 10 years). By June 1978, some 18 months after the inception of GODE, the organization had provided about $1.8 billion in aid, and Kuwait and Saudi Arabia each had deferred $2 billion of debt repayments. Dr. Munir Benjenk, Middle East program director of the World Bank, believed that these significant infusions of aid had brought Egypt out of the short-term crisis and into the long haul to recovery.[3] Al-'Atiqi indicated that the replenishment of GODE's capital might occur, but he hoped that such funds would be directed toward financing development projects.[4] For this

[1] Egyptian economist Dr. Galal Amin has compared GODE with the Caisse de la Dette Publique established by Khedive Ismail in 1876. Working with Ismail to straighten out his finances, the Caisse placed financial decisionmaking authority with European bankers. GODE, as well, could be seen as subordinating the economic development of Egypt to foreign interests.

[2] *Al-Ahram*, 28 April 1978, p. 5. Translated in JPRS Series on Near East and North Africa No. 1811, 27 June 1978.

[3] *The Times* (London), 9 October 1978.

[4] *Al-Ahram*, loc. cit. As of mid-1979, recapitalization of GODE had not been authorized.

purpose GODE was originally conceived, not for the maintenance of Egyptian balance of payments support nor for cash-flow financing.

Fresh financing for GODE was to have been secured not by new Arab allocations but by recycling Egypt's repayments of the earlier debt.[1] But by May 1979, in accordance with other measures adopted by the Arab states at the Baghdad conference six weeks previous, GODE had "frozen all its operations" in Egypt.[2]

Saudi Development Fund (SDF)

The national counterpart of the Kuwait Fund for Arab Economic Development and the Abu Dhabi Fund for Arab Economic Development is the Saudi Development Fund, the major bilateral Saudi aid institution which was established in 1974. In 1978 the SDF was the preeminent Arab aid institution, outranking all other Arab bilateral or multilateral concessional funds in aid allocations. In fact, the SDF contributions in 1978 totaled $630.6 million or 47.85 percent of total Arab developmental assistance. Through June 1976, Egypt headed the list of recipient countries with $170 million or 29.2 percent of the total then allocated.[3] By 1978, authorization of $230 million for six projects in Egypt had been reported.[4] Nevertheless, during 1978 the SDF did not provide any new funds for Egypt, and Jordan and North Yemen headed the list of countries receiving loans for the year.[5]

Authorized SDF capital totals $2.958 billion, and the SDF only lends to governments for public sector project funding. No equity participation is permitted, and the amount loaned to any one country cannot be more than 10 percent ($290 million) of the authorized capital of the fund.

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[1] *The New York Times*, 1 May 1979.

[2] *Al-Riyadh*, 9 May 1979. Noted in *Los Angeles Times*, 10 May 1979.

[3] *Fiches du Monde Arabe*, *The SDF*, 20 December 1978, No. 1145.

[4] *Los Angeles Times*, 16 January 1978.

[5] *Al-Nahar Arab Report & Memo*, 23 April 1979, pp. 9-15. Translated in JPRS Series on Near East and North Africa No. 1957, 8 May 1979, pp. 20-30.

The SDF remains highly committed to infrastructural development, as transport projects alone have accounted for nearly 43 percent of SDF funding. The fund has not had the staff required to appraise and process its loan agreements, and consequently has relied on the World Bank or the Asian Development Bank for fundable and worthy projects.

The Limited Absorptive Capacity of the Egyptian Bureaucracy

The effectiveness of the financial aid disbursed for projects in the Egyptian public, and at times private, sector has been reduced because of limited analytical resources and managerial skills in Egypt and Saudi Arabia. In certain cases, funds provided by the multilateral aid institutions would have been greater had Egypt presented better plans before the initiation of work. It has been difficult for donors to continue granting aid for projects knowing in advance that the recipient state's priorities have not yet been adequately set forth because of pressing short-term needs.

The proliferation of aid institutions claiming Saudi membership is a partial reflection of Saudi concern for the productive use of its capital transfers. Project evaluation is often easier through the multilateral funds, especially the World Bank whose skilled task forces are familiar with the characteristic problems afflicting developing states. In Saudi Arabia (as in Kuwait, whose fund has already 18 years of experience), the administrative process for consideration and discussion of projects takes far too long. Project establishment is a complex affair, and maintenance of a competent staff to monitor the ongoing work after its initiation is a necessary part of project follow-through. In the past, project overlap and duplication have characterized the Arab multilateral financial institutions, for the various Arab bilateral and multilateral funds are frequently in poor communication with one another and with world economic organizations. Furthermore, even though the Arab aid institutions may double up with the World Bank, the European Investment Bank, and other international organizations to evaluate and carry out a project, the loan criteria of these more established bodies may need readjustment in order to accommodate countries like Egypt and Turkey which find themselves in "poverty traps."

Linked to the deficiencies in the Egyptian bureaucracy for proposing new projects have been parallel inadequacies in allocating and utilizing the aid already received. 38.9 percent of the $4.3 billion in aid and credit committed had not been spent by 31 December 1978.[1] According to a report of the Egyptian cabinet in 1978 which covered investment projects and the general economy, the loans assigned to all ministries totaled $5.8 billion. Though around 75 percent of the loans were earmarked for investment (the remainder was allocated for commodity purchases), only 54 percent of these investment loans had actually been expended. By comparison, 69 percent of the commodity loans had been used. In application, the industrial and agricultural sectors fell further behind in the utilization of loans available to them (around 40 percent), whereas the utilization of the sectors of oil, the Suez Canal, aviation, and supply and transportation was high.[2]

These facts have put Egypt's absorptive capabilities in question, especially Egypt's capacity to effectively channel additional billions of dollars of investment aid sought from the United States. A similar observation registered in 1977 by an American report stated that economic and organizational problems would severely limit Egypt's ability to absorb the present U.S. aid program. The report, confirming the fact that commodity aid had been quickly consumed, suggested an increase in such aid.[3]

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[1] *Middle East Economic Digest*, 29 June 1979.

[2] al-Maraghi, Mahmoud, *Ruz al-Yusuf*, 2 October 1978, pp. 14-15. Translated in JPRS Series on Near East and North Africa No. 1879, 8 December 1978, pp. 30-32.

[3] General Accounting Office, *Egypt's Capacity to Absorb and Use Economic Assistance Effectively*, 15 September 1977.

The Politicization of Saudi Loans

The other major constraint which has affected the supply of Arab funds to Egypt has been the evolving regional political environment. Two significant events instigated a more cautious, defensive posture of the conservative Arab powers in the late 1970s: the Camp David accords and subsequent Egyptian-Israeli peace treaty, and the Iranian revolution. Both historical events profoundly affected American involvement in the region though the latter seemed to negate any positive signs of regional stability which the former may have occasioned. In any case, the Saudis were forced to reassess their political allegiances.

Sadat fed the fires of pan-Arabism by signing a separate peace treaty with the Arab world's long-standing enemy, Israel, thereby removing Egypt from the mainstream of Arab affairs. As traditional spokesman for and protector of the Islamic holy places, Saudi Arabia has preached relentlessly the historical and religious right for Arab sovereignty over East Jerusalem. The official Saudi line also has remained partial to the recognition of full Palestinian rights for a homeland. Because the actual document signed by Sadat and Begin gave no thorough consideration to these two pan-Arab objectives aiming at a more comprehensive settlement, Saudi Arabia had no alternative than to condemn the treaty and Sadat's unilateral action.

The fall of the Shah alarmed the Gulf monarchies in particular as it visibly reduced the ability of the United States to project military power in the region. Perceptions that Saudi oil fields and transit routes had become increasingly vulnerable to subversion and sabotage led Saudi leaders to consider alternatives to enhance their internal security. One such way, easily adopted, would be greater responsiveness to political currents in the region. As in previous times of regional turbulence, Saudi foreign policy became reactive and introspective; the Saudi desire to preserve the status quo led to further diplomatic and economic initiatives. Characteristic of the latter has been the more frequent use of Saudi monetary resources to achieve political ends. Timely infusions of aid to buttress certain regimes and the termination of aid programs to others have been economic actions with marked political overtones. Increasingly ostracized by pan-Arab summits, Egypt began to bear the brunt of a pan-Arab economic and political boycott, and by 1979, Saudi funds to Egypt were in scarce supply.

It was with some reservation and little enthusiasm that the Saudi leadership decided to abide by the punitive political and economic rulings of the majority of Arab states and the PLO after the Camp David accords. On 23 April 1979, the day following Kuwait's breaking of all ties with Egypt, Saudi Arabia announced that it had severed diplomatic and political relations with Cairo. Notably, however, nothing was mentioned about bilateral economic ties. This was an important omission, and it seemed to confirm the underlying Saudi desire to appease the hardline Arab states by imposing political sanctions against Egypt, without at the same time unduly threatening Sadat's regime with economic disaster. Earlier in the month, top officials in Riyadh had said that they were determined to prevent Egypt from suffering permanent damage as a result of the intended boycott.[1] This was an acknowledgement of the fact that Egypt was still very much of vital long-term interest to Saudi Arabia.

Even though funds from the U.S., West Germany, and Japan might be increased and forthcoming, the Saudi government had been cognizant of the fact that Saudi aid continued to be a substantial economic life support for Sadat. Consequently, certain Saudi aid programs would not be terminated. Those financial programs with a high degree of *visibility* and of *multilateral Arab composition*--notably the Arab Military Industries Organization [see Chapter V], the AFESD, the AMF. and GODE--were disbanded or suspended. For example, military grants for the purchase of sophisticated, highly visible weaponry also were terminated: the $525 million Saudi commitment to purchase F-5Es for Egypt was retracted in mid-1979. It also appeared likely that periodic Egyptian requests for Saudi economic grants previously considered would

[1] *Baltimore Sun*, 10 April 1979, p. 2.

be rebuffed. Another important economic sanction taken by Saudi Arabia against Egypt involved the cutoff in the supply of relatively cheap petroleum. Though a net oil exporter since 1974, Egypt was forced to pay spot prices for butane gas in 1979, an expense which the Egyptian Minister of Petroleum estimated would cost the Egyptian government $60 million.[1]

But it appeared that other sources of Saudi aid to Egypt would continue: Saudi leaders did stop short of all-out economic sanctions against Egypt. The contracts of hundreds of thousands of expatriate Egyptian workers in Saudi Arabia were not revoked and Saudi deposits (estimated at $1 billion) in Egyptian banks were not removed.[2] Other financial arrangements also continued: "Joint companies financed by Saudi capital, Saudi underwriting for Egypt to the International Monetary Fund and private and international banks and two Saudi concessionary rates for loans...."[3]

Tightening Saudi purse strings as a form of political leverage found its counterpart in the distribution of Saudi funds for positive political reinforcement. Aid to Egypt 1975-1978 entered this category as did the purchase of weapons for North Yemen and Oman, infusions of aid to Somalia in 1978, and the support of the Arab peacekeeping force in Lebanon. Concessional aid flows and grants with a high political content have not been directed through the Arab multilateral funds but through the institutions over which Saudi control is greatest--directly through the Saudi treasury and the bilateral Saudi Development Fund.

The political stability of Turkey, North Yemen, and Pakistan warranted Saudi concern in 1978-1979, and they each received generous loans from the Saudi Development Fund. A $250 million soft loan to Turkey signed in April 1979 by the SDF represented a significant Saudi

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[1] *The New York Times*, 10 December 1979.

[2] Saudi Arabia remains highly dependent upon its Egyptian expatriate force (300,000-500,000) which includes several thousands of Egyptian teachers and skilled construction workers. Egyptian expatriates generally work for less pay than do European specialists and are perceived as being less of a political risk than Palestinians.

[3] *Washington Post*, 6 May 1979, pp. 1, 7.

non-military response designed to retard the economic decay of a Western-oriented state in the region. To strengthen the vital infrastructure of its southern neighbor, the SDF signed a $164 million loan to North Yemen in September 1978 for two highway projects. Having lost its pro-Saudi president to assassination in June 1978, North Yemen had fallen periodically under attack from forces based in Soviet-backed South Yemen. (Saudi military aid to North Yemen is discussed in the following chapter.) The third Islamic pro-Western state in the region, Pakistan, secured a $92 million loan for a Karachi power project in January 1979.[1]

Similar financial infusions into the Maghreb have characterized the political uses of Saudi wealth. The Islamic East African state Mauritania which has been suffering from economic deprivation caused in part by POLISARIO raids on key iron ore transit lines, received $43 million in assistance from the SDF in 1978. Morocco received a similar amount in 1978. Both Mauritania and Morocco had been fighting Algerian-backed POLISARIO insurgents until Mauritania withdrew its claim to its share of the Western Sahara in August 1979.

Observations and Trends

During the years 1974-1977, Saudi Arabia contributed more in concessional and non-concessional assistance to Egypt than did any of the other major Arab oil exporters--Kuwait, Qatar, or the United Arab Emirates. Previously, before the 1973 oil price hike, Kuwait had been Egypt's primary source of concessional assistance from the Arab gulf region. UNCTAD figures on the following page record Saudi commitments of concessional assistance to Egypt for these four years as having reached $2.6 billion, as compared with $1.1 billion from Kuwait, $840 million from the United Arab Emirates, and $146 million from Qatar. Saudi financial flows have been channeled, almost exclu-

[1] *Al-Nahar Arab Report and Memo*, 23 April 1979, op. cit.

BILATERAL FINANCIAL FLOWS TO EGYPT
($mn)

	1973	1974	1975	1976
Kuwait		Concessional		
Commitment	210.16	449.63	324.81	118.12
Disbursement	194.99	244.62	439.23	60.38
		Non-Concessional		
Commitment	171.93	123.67	955.00	327.38
Disbursement	--	102.00	566.94	332.52
Qatar		Concessional		
Commitment	--	15.00	105.36	25.47
Disbursement	--	15.00	55.18	75.55
		Non-Concessional		
Commitment	20.00	3.41	1.75	1.70
Disbursement	--	13.41	11.75	1.70
Saudi Arabia		Concessional		
Commitment	370.00	471.00	1262.91	489.99
Disbursement	170.00	471.00	948.91	496.84
		Non-Concessional		
Commitment	60.00	102.57	5.00	--
Disbursement	--	31.00	36.57	20.00
United Arab Emirates		Concessional		
Commitment	30.65	130.04	372.57	307.26
Disbursement	20.73	120.66	284.05	349.54
		Non-Concessional		
Commitment	60.00	--	--	--
Disbursement	--	30.00	30.00	--

SOURCE: United Nations Conference on Trade and Development (UNCTAD), "Financial Solidarity for Development; Efforts and Institutions of the Members of OPEC," January 1979.

GEOGRAPHICAL DISTRIBUTION OF BILATERAL CONCESSIONAL ASSISTANCE DISBURSEMENTS FROM ARAB OPEC MEMBERS ($mn)

		Kuwait	Libya	Saudi Arabia	UAE	TOTAL
Egypt	1973	195.0	167.6	168.5	121.0	652.1 (281.2)*
	1974	244.5	16.9	471.5	121.3	859.2 (565.7)*
	1975	451.6	--	948.9	284.1	1,872.8 (535.4)*
	1976	107.2	--	496.8	348.6	1,028.2 (448.7)*

SOURCE: OECD, as noted in *Arab Aid: Who Gets It, For What, and How*, Chase Wc ld Information Center, pp 240-252.
*: These figures in parentheses are for Syria and for comparative purposes.

SAUDI BILATERAL CONCESSIONAL ASSISTANCE DISBURSEMENTS TO EGYPT AS PERCENTAGE OF NET DISBURSEMENTS

1973	55.3%
1974	45.8%
1975	47.5%
1976	21.5%

SOURCE: same as above

sively, into concessional assistance rather than into private investment and non-concessional concerns. Only Kuwait has preferred non-concessional capital transfers to concessional assistance to Egypt.

Saudi concessional aid through the Arab aid institutions appears to have peaked in 1975, though in fact the $1.8 billion in aid provided by the Gulf Organization for the Development of Egypt by June 1978--of which 40 percent was of Saudi origin--could have made 1977 the year of record Saudi financial flows to Egypt. Certainly well before the publicly announced cessation of relations with Egypt in April 1979, Saudi concessional assistance to Egypt had already taken a turn for the worse and plummeted in 1978 after the expiration of GODE funds. Indeed, the abrupt dropoff was apparent months before the Saudi-Egyptian break in relations. In 1978, for example, the Saudi Development Fund extended no loans to Egypt, and the Arab Fund for Economic and Social Development made aid contributions in 1978 totaling less than $750,000, only some of which, if any, went to Egypt.[1]

Saudi financial flows to Egypt began to dissipate in 1977, except for the extraordinary one-time transfusion through GODE in 1977-1978, because of a conscious Saudi policy to diversify the geographical composition of Saudi aid recipients. In 1973, nearly 97 percent of Arab concessionary aid went to Arab countries compared with 74 percent in 1976.[2] More recent figures would probably indicate that African, Asian, and Latin American developing states have been receiving even greater percentages of Arab concessionary aid in more recent years. In 1978 for example, only 64 percent of the total of Arab development assistance funds were allocated to Arab countries. The share of African countries was 18 percent and the share of Asian countries was 17 percent, respectively $248 million and $229.39 million.[3] As a consequence, as indicated by the small chart on the previous page, the percentage of net disbursements of Saudi bilateral concessional

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[1] *Al-Nahar Arab Report and Memo*, op. cit.

[2] John Law, op. cit.

[3] *Al-Nahar Arab Report and Memo*, op. cit.

assistance going to Egypt has been dropping steadily, from a record high of 55.3 percent in 1973 to 21.5 percent in 1976. That percentage continued to drop in 1977 and 1978 to where it became almost nil in 1979.

Apart from global diversification, the geographical distribution of aid to the Arab countries has been shifting. Whereas Egypt received nearly 50 percent of Arab OPEC concessional assistance disbursements from 1973-1976, in 1978 Egypt received less than 5 percent. Jordan headed the list of Arab countries receiving aid from the Arab funds, with 6.9 percent of the allocations of $91.27 million. Syrian allocations from the Arab funds totaled 5.3 percent, and Moroccan allocations ranked third totaling 4.7 percent.[1]

In effect, these two processes have resulted in a wider, global array of Arab OPEC aid recipients but in a smaller piece of the pie for all, including the Arab states. In the process of reapportioning the Arab funds, Egypt has suffered, comparatively, more than any other Arab state to where Egypt no longer figures prominently in any of the aid packages of the multilateral or bilateral Arab funds.

Nevertheless, for four to five years, Saudi concessional aid was extraordinarily large and on exceedingly good terms. By comparison, aid to Syria 1973-1976 from Arab OPEC members including Saudi Arabia was considerably less, roughly 60 percent of that to Egypt. Aid to Egypt has also been reliable, in that commitments and disbursements have not been flagrantly divergent. Also, the grant element of the concessional assistance has been reportedly very large. Moreover, Saudi and other bilateral and multilateral Arab aid has been rarely tied, for the demand that Egypt use the money to buy Arab goods is an impractical one. Desirable technologies are produced only in the highly-developed Western states, and it is there that much of the aid flows eventually end up.

It is important to assert here that the tabulated charts refer only to formal funds and to flows through officially-monitored channels. But in fact, as explained in the following chapter with respect to military funding, it is quite likely that sums of perhaps comparable magnitude have been provided through direct, less-visible governmental channels.

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[1] *Al-Nahar Arab Report and Memo*, op. cit.

V. MILITARY AID AND COOPERATION

Since the June 1967 Arab-Israeli war, vast amounts of Saudi financial assistance have flowed to the Egyptian military sector for the purchase of modern weaponry and support equipment needed by the Egyptian armed forces.[1] At the post-war Khartoum conference in August 1967, the Arab League countries agreed to contribute $348 million in annual assistance to reequip the forces of the frontline Arab states: Jordan, Syria, and Egypt. Egypt would be a primary recipient of these pan-Arab funds because of its military contribution to the Arab cause, and also because of its new economic hardship brought on by the loss of vital Suez Canal receipts. Additional funds estimated at $1 billion were committed after the October 1973 war at an Arab League summit at Algiers to reequip the frontline Arab countries. The October 1974 conference of Arab states at Rabat set the annual disbursements at $2.35 billion, $1 billion which would be distributed to Egypt beginning in 1975.[2]

Saudi Arabia was the largest contributor to all of these postwar funds which attempted to salvage defeated Arab air and ground forces. These postwar allocations were earmarked for military purchases so that Arab forces could keep pace with the rapid developments taking place in Western, especially Israeli, military modernization. Estimates range in the hundreds of millions of dollars for Saudi acquisition of French Mirages and Aerospatial Gazelle helicopters for Egypt, perhaps Saudi Arabia's most significant contribution.[3]

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[1] Estimates of Saudi military assistance are presented in this chapter, but precise figures are not available.

[2] *Middle East News Agency* (Cairo), 30 October 1974, reported in *FBIS-MEA-74-211*, p. A-17. However, a few months later "authoritative Arab sources" reported that initial pledges would be cut to 58 percent of the original amounts. Egypt and Syria would then receive $580 million each, Jordan $175 million, and the Palestine Liberation Organization $30 million. *Washington Post*, 14 January 1975.

[3] The SIPRI Yearbook 1977 records 38 Dassault Mirage IIIs as having been purchased by Saudi Arabia for Egypt. Sadat confirmed this Saudi purchase in his May Day speech, 1979. See *FBIS-MEA-79-086*, p. D-13.

In an indirect way, Saudi financial aid flows freed dwindling hard-currency earnings in Egypt for non-military economic development, thereby helping to dampen any social discontent which otherwise might have attended the sacrificing of inordinate amounts of locally earned monies for virtually non-productive military purchases. Saudi aid flows also gave Sadat greater freedom to maneuver in the political arena. Direct Saudi support of Egypt's military forces contributed to the reduction of Soviet influence in Egypt. On 15 March 1976, Sadat announced Egypt's unilateral abrogation of the 1971 Treaty of Friendship and Cooperation with the Soviet Union. A month later, Sadat revoked Soviet naval privileges in Egyptian port facilities. These bold anti-Soviet measures brought Sadat rewards of even greater aid commitments from Saudi Arabia. On 16 July 1977, Sadat disclosed that all of the costs of the development of the Egyptian armed forces in the near future would be paid for by Saudi Arabia. "Saudi Arabia undertook to develop the armed forces... it undertook commitments for the next 5 years without our paying 1 mil to develop the armed forces."[1]

Together with other political and economic events, this momentous decision by Saudi Arabia anabled Sadat to do two things. First, on 26 October 1977, Sadat suspended repayment of $3.5-$4.5 billion in military debts to the Soviet Union for a 10-year period starting in January 1978. This moratorium was to accompany a ban on cotton exports to the Soviet Union and Czechoslovakia. This assertion of independence from the Soviet Union grew from the confidence in Sadat's new purchasing power, and from positive Western responses to reorient Egyptian military acquisition. In fact, Soviet weapons in the Egyptian stockpile were beginning to be overhauled, and modified to accommodate Western spare parts for force complementarity.

There was a second consequence of greater Saudi largesse to Egypt which the Saudis may have failed to anticipate. The signed blank check

[1]Sadat's speech to 16 July 1977 meeting of the Central Committee of the Arab Socialist Union, *FBIS-MEA-77-137*, 18 July 1977, p. D-24.

gave Sadat the additional confidence for which he was searching to venture to Jerusalem that November to achieve a breakthrough in relations with Israel. Though in the months to come the Saudis were quiescent, and non-committal toward the unilateral Sadat initiative, their attitude changed after the Shah's fall in early 1979. The changing political complexion of the region forced the Saudis to reassess Sadat's gestures to Israel. Thus, on 23 April 1979, Saudi Arabia announced that it had broken diplomatic and political relations with Cairo, though it said nothing about economic (and hence, military) ties. Contrary to reassurances of Saudi willingness to follow through with the purchase of 50 F-5Es for the Egyptian air force, the Saudis canceled the planned $525 million purchase in July 1979.[1] This amounted to a retraction of open-ended Saudi pledges given to Sadat two years previous.

Despite this setback in Saudi-Egyptian relations, Saudi Arabia has continued to demonstrate concern for a strong Egyptian military. The cancellation of the F-5E deal came at the same time that the United States announced its intention to sell Egypt 34 F-4Es. This latter sale would enable Egypt to continue strengthening its armed forces while giving the Saudis the breathing space so desperately needed in the politically sensitive time following the expulsion of the neighboring Islamic monarch of Iran. Notably, the less visible and less sensitive Saudi purchase of $100 million of U.S. jeeps and trucks for Egypt was meanwhile approved.[2]

There are several reasons why the Saudis have been intent on bolstering Egypt's military capabilities in the past decade and why they may continue to support, though perhaps with greater discretion, Egypt's economic stability (and thus indirectly its military posture) in the future. Even before Sadat's turn to the West, political and

[1] *Baltimore Sun*, 7 July 1979, p. 2.

[2] *Washington Star*, 19 June 1979, p. 3.

military interests had largely converged. Libya's Soviet backing has alarmed both Sadat and the Saudis; Libyan dependence on non-Western sources of technically elite manpower, and her sustained acquisition of sophisticated Soviet equipment, including the advanced TU-22 and MiG aircraft, have constituted potential threats to Egypt. In addition, internal dissident movements in Egypt have turned to Libya for funding and ideological sustenance. The peculiar form of Qaddafy's revolutionary proselytism, in which there is no place for "antequated monarchs," has added insult to injury by questioning the royal bases of Saudi legitimacy.

Conflicts in East Africa (Somalia/Ethiopia) and the South Arabian Peninsula (North Yemen/South Yemen, and Oman) have kept both Saudi Arabia and Egypt on guard, and at times the military response has been concerted. Arms and ammunition to Islamic Somalia during the 1977-1978 battles came from both Egypt and Saudi Arabia. The escalation of hostilities between the two Yemens in 1978 initially brought a Saudi-Egyptian political attempt to counter what was perceived as a broader Soviet and Cuban offensive to destabilize both North Yemen and Saudi Arabia. In Cairo on 1 July 1978, Egypt, Saudi Arabia, and 13 other Arab League member states suspended diplomatic relations with and cut aid to South Yemen where a dramatic increase in Soviet advisers had been accompanied by the Soviet infusion of weapons. But by the time of active Western assistance in 1979, Saudi-Egyptian relations had ruptured with the result that only the Saudis participated in military assistance to North Yemen. Since 1976, Saudi Arabian financial assistance had been facilitating a program of U.S. military sales to North Yemen, but in response to Soviet-backed South Yemeni incursions into North Yemen in March 1979, the scope of this program was enlarged. By April, Saudi-financed American transfers were to have included 12 F-5Es, 64 M-60 tanks, and 50 M-113 armored personnel carriers, at a total cost of $383.1 million.[1]

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[1] *The Wall Street Journal*, 12 March 1979, p. 7. By December it was revealed that the "middlemen" Saudis had in fact delayed well into September the release of the F-5Es to North Yemen. The episode is symptomatic of the deep Saudi reservations to building up North Yemen's military capabilities.

The maintenance of stability in the Sultanate of Oman, the southern neighbor of Saudi Arabia, has been of Saudi and Egyptian concern as well. During the 1974-1975 renewal of the Soviet-backed rebel campaign in Dhofar province (southwestern Oman), Saudi Arabia and Egypt sided with the Sultan in the political arena, taking no measures to hamper the deployment to Oman of about 3500 Iranian troops and 200 Jordanian engineers.[1] Speculative reports surfaced in 1979 which alleged that Egyptian military technicians had been sent to Oman (and Somalia) to assist the Sultan in his struggle against subversion. With the withdrawal of Iranian forces from Dhofar province in 1977, the Sultan in the future may come to rely on a variety of Arab states--including Egypt, Saudi Arabia, and Jordan--for military assistance in a crisis.

In these instances of political unrest in the Middle East, Saudi and Egyptian policies have been mutually reinforcing, impressing upon the Saudis the importance of having a potential Arab ally with a mobile force prepared to counter present and future movements of insurgency. Because Saudi Arabia herself may need the help of a quick strike force or interventionary squadron should a neighboring state invade--Iraq through Kuwait, or South Yemen through North Yemen--Saudi-Egyptian military cooperation, even on a limited basis of contingency planning, could provide an effective Arab alternative to superpower involvement in future inter-Arab conflicts.

Without a military role to play in the Arab/Islamic world when peace with Israel is on the horizon, Egypt may indeed be preparing to command a more prominent military role in the Middle East and even in Africa. Such a goal could explain Sadat's successful drive to make Egyptian airlift capacity the greatest in the region. In addition to some 20 heavy Russian AN-12 transports that are still flying, Egypt acquired from the United States in 1979 19 C-130 transport planes. Furthermore, the French Crotale surface-to-air missiles are mobile.

[1] *The Times* (London), 12 December 1975.

Actual commitment of Egyptian troops to combat in Africa or the Middle East, however, may be prevented by lingering memories of Nasser's Vietnam-type war in the Yemen in the 1960s. Instead, Egypt may provide military equipment and instruction to African states threatened internally or externally by politically-inspired (especially communist) forces. Precedent for Egyptian involvement in non-Arab-African affairs has already been established. Prompted by the May 1978 invasion of Shaba Province, Egypt sent to Zaire large quantities of arms, in particular heavy artillery, as well as several military advisers and instructors.[1]

Changes in Egyptian military planning which would point to increased Egyptian involvement in East African and Arabian Peninsular areas began to be incorporated into the official Egyptian policy line after the signing of the Camp David Middle East accords. Egyptian Defense Minister Kamal Hassan Ali said on 4 December 1978 that a treaty with Israel would mean a shift from a "state of war to a state of defense," not to peacetime demobilization. He also said that the military would have to be alert to the "imminent dangers" of Soviet infiltration in the region and would have to be "capable of movement in all directions, and action in all directions."[2] Such a rationale for keeping the Egyptian armed forces mobilized would have beneficial economic and political side-effects inside Egypt in the short term; the release of some 200,000 Egyptians from active service on the border with Israel would be a substantial burden on the already-saturated Egyptian labor market.

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[1] *The New York Times*, 11 June 1978. Similarly motivated, Saudi Arabia offered to supply certain of its American-made weapons to an African defense force organized to relieve French and Belgian troops in Shaba Province. *The New York Times*, 2 June 1978.

[2] *The Christian Science Monitor*, 6 December 1978. The next day in a speech delivered to a People's Assembly foreign relations committee, the Defense Minister added that the forces of international communism had already aided Zaire, Zambia, Tanzania, Uganda, Chad, Togo, Somalia, Eritrea, and many Arab countries. Noted in *Arab Report and Record*, 1-15 December 1978.

<u>The Origins and Goals of the Arab Military Industries Organization (AMIO)</u>

In addition to purchasing weapons for the Egyptian armed forces and supporting the Egyptian economy through loans and grants, the Saudis helped to organize a short-lived pan-Arab institution, that of the Arab Organization for Industrialization (AOI). Organized in April 1975 but under consideration for much longer, the Arab Organization for Industrialization was a "trilateral venture" designed in theory to unite Saudi oil capital with Western technology and Egyptian human resources. AOI set out on an ambitious path hoping to overcome the obstacles which had severely hindered previous pan-Arab political and military ventures. Nevertheless, in its first five years, AOI established no civilian enterprises, and only one consortium, the Arab Military Industries Organization (AMIO), which has often been equated with its parent, AOI. Each of the original signatories--Egypt, Saudi Arabia, the United Arab Emirates, and Qatar--contributed $260 million to AMIO, bringing AMIO's initial assets to a total of $1.04 billion. Egypt provided its share in kind by offering four existing armament plants in Egypt to AMIO.[1]

The Arab Military Industries Organization was neither exclusively private nor public, as it combined financial and managerial elements from both sectors. To accommodate the differing fiscal systems of the four signatories to the April 1975 treaty, innovative provisions were made for "financial and administrative independence and exemption from the laws and systems concerning salaries, taxes and customs, and monetary inputs and exports."[2] Egypt, in particular, would be made more attractive to foreign investors. Many bureaucratic policies of the

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[1]The four military factories were the Helwan Aeronautic Industrial Plant (built in 1950), the Helwan Engine Plant (1960), the Saqr Modern Industries Plant (1953), and the Qadir Plant (1950). These plants have produced training aircraft, spare parts for Soviet aircraft, unguided rockets, surface-to-surface and air-to-air missiles, and armored troop carriers, and various grenades and explosives. See *Al-Nahar Al-'Arabi Wa Al-Duwali*, 4 December 1978, p. 13. Translated in JPRS Series on Near East and North Africa, No. 1891, 9 January 1979, pp. 16-19.

[2]*Aviation Week and Space Technology*, 15 May 1978, p. 15.

socialist days (inability to dismiss incompetent or extraneous personnel in the public sector) which could plague AMIO in its formative period and so jeopardize the acquisition of contracts from the West were isolated in an attempt to render them inoperative.

The driving force in the region fueling the advancement of an Arab military production consortium was a growing desire to develop Arab weapons production independent of the dictates of the superpowers as a step away from political and military dependency.[1] As most of the states in the Arab world saw their colonial heritages only to be superceded by memories of superpower involvement in their internal affairs, the consuming long-term ambition of many Arab states has been the reduction of foreign control over their affairs. In this vein, one Saudi editor has written that "Neither the U.S. nor the Soviet Union would like to see the military strength of the Arabs grow. Their arms supplies to their respective friends in the Arab world are only part of their overall attempts to gain spheres of influence in the region."[2] With past American reluctance to meet the Arab defense needs on the one hand, and Soviet ambitions for influence through often generous, but sporadic, deliveries of military hardware on the other, buying the technology and expertise to strengthen indigenous military resources had become an attractive alternative. Directors of AMIO envisioned that no single Western state would have a dominating influence in the military production: France, Great Britain, and the United States would all contribute technical expertise and technology. Contract diversification thus reflected the Arab desire to reduce ties of dependency.

The emphasis on greater regional self-reliance to achieve a modicum of self-sufficiency found grounding in national motivations. Each partner to the consortium was committed to broad-scale modernization,

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[1]Of course for the West, AMIO offered the possibility of lucrative arms sale contracts coupled with an expanded market. Deepening links in the military arena would enhance future prospects for unimpeded oil flows.

[2]*Arab News* (Jiddah), 13 March 1978, p. 6. Translated in JPRS Series on Near East and North Africa No. 1778, 4 April 1978.

some with expectations of developing local military industries as part of long-range plans to invest in human and material capital. In Egypt, the new weapons industries recruited existing technical talent and sent students to study abroad in order to build up local capabilities necessary to advance industrial efforts. The acquisition and absorption of lower and intermediate technologies and the development of a new generation of skilled technicians and managers would accompany imports of high technology to meet future security needs. The division of labor among the four AMIO countries would strive to meet the labor-intensive needs of Egypt and the capital-intensive needs of the other less-populated countries UAE and Qatar. In short, Arab military industries were designed to be a spearhead of coming rapid industrialization; spinoffs of the showcase projects would accrue to the civilian sectors.

Another major source of inspiration for the founding AMIO fathers was its perceived utility as a multilateral institution. As a mechanism for deliberately clouding the boundary between the military and political interests and financial commitments among Arab states, AMIO would be able to function as a multilateral Arab consortium without being vulnerable to the weaknesses individual states suffer. For example, AMIO would command more leverage in its contractual affairs, as its market potential would represent several Arab states.

Moreover, for Saudi Arabia which undertook commitments to develop Egypt's armed forces in a period of five years (1977-1982), AMIO could supervise purchases to ensure Saudi-Egyptian force complementarity. The 44 Mirage F-1 fighter bombers, most of which were delivered to Egypt in 1978, were purchased with AMIO funds.[1] With each of the three other states party to AMIO within the Saudi sphere of influence in the Arab world, a cooperative military consortium could lead to cooperative military planning, and to a greater sense of security for Saudi Arabia and her oil resources. Seen in this light, AMIO would be only one of many forms of political insurance for the ruling Saudi royal family.

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[1] *Strategic Middle Eastern Affairs*, 15 February 1978.

The Politics of AMIO Composition and Leadership

The four AMIO signatories represented only the moderate to conservative segment of the diverse ideological spectrum in the Arab world. Initial political failures were suffered by AOI founders in their attempt to coordinate Arab efforts on a previously unattained level of cooperative in military affairs. However, given the serious, long-term nature of the military-industrial undertaking, and the contrasting perceptions of threat amongst the Arab states, a more heterogeneous mixture of Arab participants would have been a remarkable political feat. Transcending the bounds of local national interests had been the exception and not the rule for projects aiming at pan-Arab economic and political integration.

Iraq and Libya were not founding members of AMIO due to the political and ideological gulf separating their foreign policies with those of the AMIO states. Both are heavily supplied with Soviet weapons, and find themselves often on the side of revolutionary, anti-status quo forces. Kuwait initially rebuffed AMIO, and though the possibility of entering the Arab arms-producing coalition was discussed, the Kuwaiti daily *Al-Siyasah* stated that Kuwait formally declined to join AMIO.[1] Sudanese Defence Minister General Bashir Muhammad Ali revealed during an interview with a Qatari magazine, *Al-Saqr*, that the Sudan had also applied to join AMIO.[2] In its brief existence, however, AMIO was unable to attract equity participation from other than the four founding Arab states.

Even though the original signatories maintained a relatively consistent perspective on the direction and orientation of their cooperative military-industrial enterprise, AMIO had a checkered early career and a short life. There was considerable speculation with political overtones pointing to management failures and actual corruption. The

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[1] *Arab Report and Record*, 1-15 September 1977, p. 719; *Middle East Economic Digest*, 11 November 1977.

[2] *Sudanese News Agency*, 4 October 1977, noted in *Arab Report and Record*, 1-15 October 1977. See also *Middle East Economic Digest*, 2 December 1977, p. 22.

original director-general of AMIO, Nasser's son-in-law Dr. Ashraf Marwan, was in effect, dismissed by Egyptian President Sadat on 9 October 1978.[1] This unilateral move added fuel to whatever fire was developing in Saudi-Egyptian relations, for it was in disregard of the collaborative nature of Marwan's appointment.

The dismissal of Marwan occasioned further speculation on possible ulterior economic and political motives. Arab sources in Paris saw the dismissal as a clear Egyptian attempt to suspend the military organization's activities.[2] Such sources concurred with the speculation of Dassault producers who alleged that Sadat had been influenced by the dictates of American military-industrialists resentful of Dassault's growing influence in Egyptian military procurement.[3] Furthermore, Franco-American rivalry in Egypt may have been heightened by the Camp David Middle East accords which involved a future negotiatied settlement, and elevated the U.S. to the eminent position of broker. American entry into the Egyptian warplane market in May 1978 with the sale of 50 F-5Es not only eclipsed the previous Egyptian purchase of 44 French Mirage F-1s, but also heralded the beginning of a possible long-term arms supplying relationship between the United States and Egypt. Alarmed by this reduction in their sales, French military industrialists may have had second thoughts about providing assistance to an Egyptian defense industry which would be serving American interests in the Middle East.

Other speculation, however, alluded both to political intrigues and to flamboyent economic excesses at the top of AMIO. Marwan might have been leaning too heavily toward Saudi defense needs at the expense of Egyptian capabilities. Such an inclination may have worried Sadat and caused him to be suspicious of Marwan's close involvement with Saudi industrialist and business promoter Adnan Kashoggi.[4] Also, Marwan was

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[1] *Cairo Radio*, noted in *Arab Report and Record*, 1-15 October 1978, p. 722. It should be noted that Dr. Marwan was much more loyal to Sadat and the *infitah* than to Nasser and his policies.

[2] *Strategic Middle Eastern Affairs*, 22 November 1978.

[3] *International Herald Tribune*, 16 November 1978, p. 1.

[4] *Foreign Report*, 1 November 1978.

reported to have been extravagant in his parcelling out of salaries and gifts.[1] Because of AMIO's regional and international visibility, and its significance as a pan-Arab mechanism bent on efficiency and production, confidence in the integrity of the director would be of utmost concern; perceptions of any AMIO mis-management would have to be quickly adjusted. High AMIO operating costs and a fear of being overwhelmed by the Egyptian economy and bureaucracy could have instigated the Saudis to press Sadat to change AMIO leadership.

AMIO replaced its Egyptian chairman in an ad hoc manner with Sheikh Feisal Bin Sultan al-Qasimi, Deputy Chief of Staff for Operations in the Armed Forces of the United Arab Emirates. Apparently, the Saudis insisted that a non-Egyptian be appointed chairman of AMIO and if at all possible, a Saudi. With a national from other than Egypt as head of AMIO, the Saudis probably felt that they would have a firmer grip over the future of their capital investment in AMIO. Therefore the Saudis initially pushed for the nomination of Saudi economic specialist and American-educated Dr. Yussef al-Turaiqi, and later for the nomination of al-Qasimi. A contest between Egypt and Saudi Arabia for the position of AMIO director ensued, for Egypt initially opposed al-Qasimi's nomination and instead put forward Hassan Abdel Fattah Ibrahim, an Egyptian official. It is likely that the ultimate choice of al-Qasimi (UAE) represented a Saudi-Egyptian compromise. Nevertheless, al-Qasimi's appointment was never confirmed by the four member states, and by the time of severe political reprisals against Sadat in the first half of 1979, the issue had already become redundant.

AMIO Contracts for Military Production in Egypt

Negotiations with Western companies began as early as 1973 for the assembly and eventual production of a variety of aircraft and weapons. But five years expired before contractual obligations were

[1] *Al-Akhbar*, noted in *Arab Report and Record*, 1-15 October 1978.

secured because of political complications among prospective Arab participants in the consortium, and between Arab states and the West. Agreement in principle for licensed assembly-line operations in Egypt of the Westland Lynx attack helicopter was announced in September 1977. In January 1978 a memorandum of understanding was signed; and in early March another, more definitive agreement was signed, estimated by the International Institute for Strategic Studies at $595 million.

The AMIO-Westland deal provided for the initial production of 50 Lynx helicopters, with the eventual, possible production of 230, pending successive contracts. Some of these were to be acquired by the Saudi army and air force. AMIO and Westland formed a joint company called the Arab-British Helicopter Company with $30 million in capital. Westland's share was 30 percent, including both cash investment and the contribution of managerial and technological know-how. Total value of the initial contract which includes tooling, materials, and technical support was $97 million.[1] Production would take place at a plant in Helwan to be constructed under the supervision of John Laing International of London. The $26 million contract to build the helicopter production plant specified a May 1980 completion date, with monitoring of the work undertaken by consultant engineering firm Parsons Brown of Bristol.[2]

Another major contract with a value of $175 million was signed by AMIO and Rolls-Royce for the eventual production of 750 jet engines at Helwan. The prospects for setting up production lines for the Rolls-Royce "Gem" gas turbine engine (used by both the Westland Lynx and the Hawker Siddeley Hawk) had been discussed as early as 1975.[3] The Arab-British Company was an offshoot of the AMIO-Rolls Royce talks. Rolls-Royce was contracted to train Egyptian workers in Britain and to assign technical and supervisory personnel to Egypt during the initial stages of work.

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[1] *Aviation Week and Space Technology*, 15 May 1978, p. 15.

[2] *Middle East Economic Digest*, 10 November 1978.

[3] *Daily Express* (London), 13 February 1975, p. 4.

The construction of advanced military aircraft was long of preferential concern to Egyptian military representatives. The military cooperation protocol between AMIO and the French government covering technical assistance and arms production signed on 14 March 1978 was designed to enable French aircraft manufacturers to pursue coproduction agreements. This protocol was a formalization of the technical, industrial, and political guidelines determining future AMIO procurement and production of French military systems. Six months later, on 17 September 1978, an agreement in principle was signed between AMIO and the French Dassault-Breguet Company for the production of Alpha Jet aircraft in AMIO plants.[1] Initially, Egypt had wanted to produce 200 Mirage F-1s, but later opted for eventual production of 160 smaller, less complicated Franco-German Alpha Jet trainer/close support aircraft. Local construction of the aircraft would initially entail assembly of parts made by Dassault-Breguet, Thomson-CSF, Matra, and SNECMA. The latter signed the head of an agreement with AMIO in November 1978 for the production of the Larzac aero engine used in the Alpha Jet. The follow-on project might have been the SNECMA M53 engine for the Mirage 2000, once considered for production in Egypt.[2]

Two other contracts were completed between AMIO and Western industrial sources. On 8 December 1977, an agreement worth over $72 million was concluded between AMIO and the British Aerospace Dynamics Group for the assembly and eventual manufacture in Egypt of the entire Swingfire anti-tank guided missile.[3] AMIO head, Feisal Bin Sultan al-Qasimi, announced in February 1979 that the completed assembly of AMIO's first missile was expected by September 1979.[4]

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[1] *Middle East News Agency* (Cairo), 17 September 1978. Translated in JPRS Series on Near East and North Africa No. 1851, 3 October 1978, p. 16.

[2] *Middle East Economic Digest*, 1 June 1979, p. 8.

[3] *Financial Times* (London), 8 December 1977.

[4] *Strategic Middle Eastern Affairs*, 21 February 1979, p. 2.

AMIO-SPONSORED MILITARY INDUSTRIALIZATION IN EGYPT

AMIO PROJECT PARTNERS	INITIAL ASSEMBLY/PRODUCTION[a]	TARGETTED ASSEMBLY/PRODUCTION
Westland; 30 percent share in "Arab-British Helicopter Company"	50 Lynx helicopters (estimated $97 million)	230 Lynx helicopters (estimated $400 million)
Rolls-Royce "Arab-British Engine Company"		750 "GEM" gas-turbine jet engines (estimated $175-200 million)
Dassault-Breguet	160 Alpha Jet trainers	the Dassault Mirage 2000[b]
British Aerospace: 30 percent share in "Arab-British Dynamics Ltd."		several thousand Swingfire anti-tank guided missiles (estimated $72 million)
American Motors Corporation; 49 percent share in "Arab-American Vehicles Company"		12,000 military jeeps per year by 1981

[a]Based on the philosophy that very gradual and progressive production will follow incipient assembly of imported components.

[b]Production of Alpha Jet trainers is in theory to lead to the eventual production of the more sophisticated Mirage 2000 by the mid-1980s. In 1978 the Mirage 2000 was still under development by the French Air Force.

The other agreement concluded within the framework of AMIO for military production in Egypt contracted the American Motors Corporation to provide for the construction of a major facility (a 2 million square-foot complex) for the eventual assembly of 12,000 jeeps, wagoneers, and pickup trucks a year. By and large, imported American parts would be assembled, but local sources would supply some components. AMIO aimed to gradually produce a majority of the components. Construction of the facility began in November 1977, and formal opening of the military jeep assembly plant took place on 31 January 1979. AMIO owned 51 percent of the newly created Arab-American Vehicles Company, the $6 million partnership between AMC and AMIO.[1]

By the beginning of September 1979, the first Swingfire anti-tank missile made in Egypt had been mounted on a locally-produced jeep. The whole system appeared in the anniversary parade marking the beginning of the October 1973 war with Israel. It advanced at the side of the first U.S. Phantoms recently delivered to Egypt and some Chinese-manufactured Shenyang F6 aircraft.[2]

Saudi Arabian Contracts and AMIO

Alongside Egypt, Saudi Arabia was the only other of the four signatories to the April 1975 treaty with grandiose plans for new military production facilities. Within the AMIO framework, a multi-billion dollar complex to be constructed at al-Kharj (60 miles south-east of Riyadh) constituted the plans for military production on Saudi soil. The long-range aim of the massive undertaking would provide Saudi Arabia with an underground national command center, facilities to contain concealed and secure aircraft, an arsenal to assemble and eventually manufacture missile systems, and factories to maintain acquired missiles and electronic systems. Initial estimates projected an eventual outlay of $10-15 billion.

[1] *Washington Star*, 1 February 1979.

[2] *Defense et Diplomatie*, 22 October 1979, p. 6.

DEFENSE, SECURITY AND RELATED EXPENDITURES OF
SAUDI ARABIA, 1973-74 TO 1976-77

	1973-74	1974-75	1975-76	1976-77
National Guard ($mm)	186	370	747	1,334
Intelligence Services	18	27	63	59
Defense and Aviation	1,545	2,518	6,778	9,116
Total	1,749	2,915	7,588	10,509

SOURCE: Saudi Arabian Monetary Agency (SAMA) reports, as stated in "Economic Development of the Middle East Oil Exporting States," The Economist Intelligence Unit Limited, 1978.

In early 1978, AMIO executives decided at an Abu Dhabi meeting to establish a joint military electronics company at the al-Kharj complex.[1] After several months of negotiations the French company Thomson-CSF reached agreement on 22 July 1978 to build an electronics factory at al-Kharj. This factory would manufacture and assemble electronic components for the air defense and command and control systems to be procured by AMIO member states.[2] The AMIO stake in this bilateral capital-intensive undertaking, which would meet the lower employment requirements of Saudi Arabia, would be 70 percent, with 30 percent owned by Thomson-CSF. The joint-stock project, the Arabian Electronics Industries, was capitalized at $25 million, but Saudi Arabian sources believed the overall program ultimately to be worth about $1 billion to Thomson-CSF.[3]

It appeared probable that Saudi military-industrial ventures would attempt to complement and not duplicate ongoing Egyptian AMIO projects. But as the requisite initial outlays would soon consume AMIO's assets, these billion-dollar Saudi undertakings would have to be largely independent of the financial, and thus political scrutiny of AMIO.[4]

The Dissolution of AMIO

Under the strains created by the conflicting interests of its two prominent members--Saudi Arabia and Egypt, AMIO in 1979 reached the brink of dissolution. Although it is still too early to write the epitaph of AMIO, the form and composition of its constituency is bound to change if the institution is to endure. On 13 May 1979, Saudi

[1] *Gulf Weekly Mirror* (Bahrain), 26 February 1978. Translated in JPRS Translations on Near East and North Africa No. 1775, 28 March 1978.

[2] *Financial Times* (London), 25 July 1978; *Defense et Diplomatie*, 21 September 1978.

[3] *Middle East Economic Digest*, 6 October 1978, p. 40.

[4] The Saudi partner to the above-mentioned Thomson-CSF joint venture was named as the *Supreme* Arab Organization for Military Industries (SAMIO). This appellation suggests that for military-industrial undertakings on Saudi soil, Saudi authority would be paramount.

Defense Minister Prince Sultan bin Abdul Aziz announced the dissolution of AOI (the parent of AMIO) as of 1 July, linking the decision to the near unanimous Arab opposition to the Egyptian-Israeli peace treaty just signed. Sheikh al-Qasimi said, "Egypt's unilateral step in granting Israel legal and political recognition was, in the view of the leaders of the three participating countries [Saudi Arabia, Qatar, and the United Arab Emirates], in conflict with the reasons and the objectives of setting up the Arab arms industries organization."[1] At the same time, Sheikh al-Qasimi announced the formation of a committee of representatives of the four signatories to wind up the affairs of AOI.

The termination of AMIO is by no means the first occurence of inter-Arab discord forestalling the realization of pan-Arab ambitions and cooperative ideals. Cooperative efforts in the Arab world, especially those aiming to unite the political structures of separate Arab states--the Egyptian-Syrian union of 1958-1961, the abortive Egyptian-Libyan attempts at union in 1973, and the Iraqi-Syrian attempts at union, 1978-1979--have been jeopardized by endemic political feuding and the relegation of pan-Arabism to local national concerns.[2] Though the dissolution of AMIO was the immediate victim of fallout generated by the Egyptian-Israeli treaty, there were indications from the conception of AMIO that the institution would be plagued with divisive, cross-cutting national interests.

For Saudi Arabia, the demise of AMIO would not prove particularly detrimental to the health of the Saudi economy nor would it have serious long-term implications for technology transfer to Saudi Arabia. As distinct from military factories in Egypt which have been rennovated, the al-Kharj complex in Saudi Arabia was only in its conceptual infancy and there would be no comparable underutilization of industrial

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[1] *International Herald Tribune*, June 1979, Special Supplement, p. 16S.

[2] For an excellent presentation of the diverging national interests of the Arab states and of the stresses and strains in the Arab world which have led to "a profound fragmentation of the Arab existential and political crisis," see Fouad Ajami, "The End of Pan-Arabism," *Foreign Affairs*, Winter 1978-1979.

capacity as there would be in Egypt. Saudi assistance originally earmarked for AMIO would also not be lacking for alternative uses. After the fall of the Shah of Iran, the Saudi defense ministry reshuffled its priorities in order to accept more responsibilities for military security in the Persian Gulf and the vital Arabian Peninsular oil fields. A greater concentration of energies into short-term modernization of the Saudi paramilitary national guard would necessitate prompt military technology purchases from the West. In response, on 13 July 1979, the U.S. State Department recommended the sale of $1.2 billion in military equipment for Saudi internal security needs.[1] By 1980 it appeared likely that the long-term military industrialization plans for Saudi Arabia would have to be shelved, if not abandoned altogether.

An AMIO Spinoff: The Egyptian Organization for Industrialization (EOI)

Sadat and his Defense Minister Kamal Hassan Ali condemned and categorically refused to accept the Saudi decision to disband AOI. Sadat's reluctance to abide by the politically-motivated decrees of his erstwhile Arab partners was grounded in his realization that Egypt would suffer severely in the future from AMIO's disbandment. It would entail a significant loss of technology transfer, which had the transfer proven successful would have led to follow-on projects, including perhaps the Rapier missile and the Westland SeaKing helicopter, and to spinoffs in civilian industrial enterprises. Egyptian weapons producers had been looking forward to increases in their sales of AMIO-produced weapons to Arab and other states. Egyptian net sales of military equipment had been on the rise, reaching $135.8 million in 1978, and an anticipated $156.7 million in 1979.[2]

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[1] *The New York Times*, 14 July 1979, p. 1.

[2] *Defense et Diplomatie*, 21 December 1978, p. 3.

Sadat held the three other signatories responsible for the consequences of the move, including the breaking of contractual obligations with France and Britain. By July 1979, having failed to reach agreement with the other three member states on how to liquidate AOI, Egypt was considering calling upon the arbitration arm of the World Bank to rule on the major differences.[1] In August, all Arab funds invested in AOI were frozen until the question of liquidation had been settled.[2]

While representatives from the four member states met in Paris in June 1979 to discuss the liquidation of AMIO's assets, the creation of an "Egyptian Organization for Military Industries" (EOI) was announced in Cairo. At that time, Egyptian Defense Minister Kamal Hassan Ali stated that Egypt would forego total dissolution of AMIO and would perservere in the realization of the Swingfire missile, Lynx helicopter, and AMC jeep projects.[3] The projects would have to be redefined in cooperation with the European and American partners and new sources of finance would have to be found. Sadat issued a decree on 9 August naming himself head of the higher committee for EOI, with other board members being the Vice President, Prime Minister, and the ministers of defence and war production and foreign trade and economic cooperation.

Four months later, Egypt and the United States signed a protocol of cooperation for the manufacture and assembly of military electronic equipment, armored vehicles, and spare parts for Egypt's combat aircraft. Under the 21 October 1979 accord, which Egyptian Defense Minister Kamal Hassan Ali called "the most important achievement" in Egyptian-American relations, electronic and optic industries would be introduced in Egypt.[4]

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[1] *Middle East News Agency* (Cairo), noted in *Arab Report and Record*, 18 July 1979, p. 29.

[2] Defense Minister Hassan Ali, noted in *Middle East Economic Digest*, 17 August 1979, p. 19.

[3] *Defense et Diplomatie*, 28 June 1979, p. 2.

[4] *Middle East News Agency* (Cairo), noted in *The New York Times*, 22 October 1979.

Though the protocol represented a diplomatic comeback for Egypt, it was at the same time a pyrrhic victory of sorts. The more modest nature of the items to be manufactured and/or assembled in Egypt indicated that the Americans, previously hostile to the more ambitious goals of AOI, would agree only to scaled-down military production in Egypt which would not directly upset the inter-Arab or Arab-Israeli balance. Emphasis also appeared to be on projects that would show quick results--the repair and upgrading of Soviet weapons in the Egyptian inventory, and the production of military jeeps already underway.

For two other reasons Sadat stood to lose ground in his foreign economic and political relations. First, the distinctly Egyptian nature of EOI would not suitably replace the inter-Arab, collective character of AMIO; such technological reliance on the U.S., in addition to the growing bilateral military ties, would visibly violate principles of Islamic nonalignment since it would be a step toward, rather than away from, military and economic dependency. Second, and related to the first, the new U.S. involvement in Egyptian military industrialization--a direct preemption of several years of French and British efforts to cooperate in the larger Arab consortium--would discourage future Egyptian military deals with these two countries. For fear of aggravating their military sales relationship with Saudi Arabia and other Gulf states, Britain and France would not jeopardize these lucrative markets through future, tenuous cooperative schemes with Egypt. Military production in Egypt, therefore, would likely remain an American preserve.

VI. WESTERN AID FLOWS TO EGYPT AND THE ECLIPSE OF SAUDI AID

By the end of the 1970s, Saudi-Egyptian diplomatic, military, and economic relations had deteriorated to the extent that aid to Egypt from the West, especially from the U.S., had begun to dwarf aid from Arab sources, including that from Saudi Arabia. It has been Egypt's misfortune in recent decades that as the assistance of one financial patron has increased, that of the previous patron has sharply declined: Saudi aid is now next to nonexistent. Though a truly nonaligned status may have optimized the amounts of financial assistance extended to Egypt from the U.S., the Soviet Union, and the Arab oil-rich states, both Nasser and Sadat pursued policies which endorsed alignment, and which swung the pendulum to the side of only one benefactor.

The swing to the United States for economic and military assistance in the latter part of the 1970s was not without parallel in modern Egyptian history, but Egypt's economic and political relationship with the West--the U.S., Britain, and France--had suffered setbacks throughout the presidency of Nasser. After American Secretary of State Dulles announced that the U.S. would withdraw from the arrangement providing for a loan for the high dam at Aswan to be financed by the U.S., Britain, and the World Bank, Nasser affronted the West by nationalizing the Suez Canal. The aborted trilateral scheme of Britain, France, and Israel to invade Egypt in 1956 further strained Egyptian relations with the West. But by March 1960, Egyptian relations with the United States had improved to the extent that loans totaling $32.5 million for economic development were signed and the sale of surplus U.S. farm products approved. The Agency for International Development allocated $94.5 million in loans and grants during fiscal years 1962-1965. But from 1964 onward, Egyptian dependency on the Soviet Union grew and the contours of Egyptian foreign and military policies took shape while relations with the United States resumed their downward spiral. By fiscal year 1966, U.S. assistance had fallen to $1.5 million and in 1967 to $800,000.[1]

No U.S. loans or grants were extended to Egypt from the June 1967 war until 1974. After the signing of the Egyptian-Israeli Sinai accord on 18 January 1974, the United States and Egypt restored full diplomatic relations after a break of seven years. As the financial assistance to Egypt from Saudi Arabia and other Arab states began to rise, so did that from the United States. American aid has come primarily in the form of surplus wheat sales, programs administered by the U.S. Agency for International Development, but in late 1979 the provision of roughly $3 billion in foreign military sales credits for the purchase of advanced American arms in the 1980s was under active consideration.

U.S. Agency for International Development and the World Bank

The bulk of American funds for Egypt have been administered by the U.S. Agency for International Development (AID) and guided by AID philosophy which has entailed funding the development of a long-term economic program rather than a high-velocity, quick impact program. However, there have been exceptions to this rule: After the food price riots of January 1977, AID took $190 million out of capital development projects to enable the Egyptian government to use the money for purchases of food.[2]

AID economic support has been divided into five main categories: General Economic Support (including balance of payments; Public Law 480 Title I which provides for the importation of U.S. agricultural products on concessionary terms); Development Planning (technical and feasibility studies, technology transfer and manpower development);

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[1]General Accounting Office, op. cit., p. 3.

[2]*The Guardian Weekly*, 3 July 1977.

Social Infrastructure (electricity, water and sewage); Transportation, Industry, Commerce and Finance (Suez Canal rehabilitation, Suez cement plant); Food and Agricultural Development (canal dredging, grain storage silos); and Social Services (including family planning, Public Law 480 Title II which provides for volunteer relief services [CARE]). Though the overwhelming majority of AID funds to Egypt have been channeled into General Economic support activities, financing for some 95 projects also has been provided.

Since 1975, annual AID support to Egypt has wavered around the $1 billion mark. U.S. Congress allocated $943 million to AID programs for Egypt in the fiscal year 1979, the same level as in 1978.[1] A detailed breakdown of U.S. AID allocations to Egypt has been provided on the next page, and annual obligations have been the following:

fiscal year 1975:	$370.5 million
1976:	$984.6 million
1977:	$892.3 million
1978:	$943 million[2]
1979:	$950 million

In addition, the United States has indirectly extended concessional assistance to Egypt through the auspices of the World Bank. Egypt has been the largest Arab borrower of World Bank funds, having received amounts ranging between $222-267 million annually, 1975-1978. The two World Bank loans and four International Development Agency (IDA) credits approved for Egypt for the fiscal year 1978 amounted to $241 million. World Bank loans and IDA credits to Egypt have been the following:

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[1] *Middle East Economic Digest*, 10 November 1978.

[2] AID, *U.S. Overseas Loans and Grants and Assistance from International Organizations, Obligation and Loan Authorizations through 9/30/78*.

SUMMARY OF U.S. ECONOMIC ASSISTANCE TO EGYPT FOR
FISCAL YEARS 1975-1978 ($mn)
(As of July 31, 1978)

Fiscal Year	Obligated	Sub-Obligated	Expended	Unexpended Obligations
1975	370.5	334.9	307.1	63.4
1976*	984.6	733.3	427.3	557.3
1977	892.3	672.1	445.1	447.2
1978	516.3	401.3	116.4	399.9
Total	2,763.7	2,141.6	1,295.9	1,467.8
1975-1978				
Grants	409.3	208.0	113.5	295.8
Loans	514.3	143.7	3.6	510.7
Commodity Import Program Loans	1,155.0	1,114.8	570.3	584.7
Total A.I.D. Assistance	2,078.6	1,466.5	687.4	1,391.2
PL480				
Title I	641.4	641.4	581.3	60.1
Title II	43.7	33.7	27.2	16.5
Total	2,763.7	2,141.6	1,295.9	1,467.8

SOURCE: A.I.D.

Obligated: Agreement signed.
Sub-Obligated: Letter of Commitment issued (host country implementation).
Project Implementation Order issued (A.I.D. implementation).
Purchase Authorization issued (PL480 Title I) or Calls Forward issued (PL480 Title II).
Expended: Funds disbursed or accrued, or goods shipped (PL480).
Unexpended Obligations: Obligations minus expenditures.
*Includes Interim Quarter.

fiscal year 1975:	$227	million
1976:	$222	million
1977:	$267.5	million
1978:	$241	million[1]

Stepped-Up American Military Assistance

Just as the Saudis had rewarded Sadat with increasing military and economic assistance after his drift and separation from the Soviet sphere of influence, so the Americans began to give serious consideration to Sadat's financial overtures after his peacemaking with Israel. Ironically, Sadat's postwar (1973) appeals for the construction of an Arab/Marshall Plan for Egypt [see Chapter II] evoked greatest interest not from Arab oil producing states but from certain political quarters in the West. Suggestion of an Arab/Marshall Plan struck a responsive chord in the U.S. Senate where on 12 October 1978 five senators introduced legislation calling for a new Carter/Marshall Plan for the Middle East. The senators--Henry Jackson, Clifford Case, Frank Church, Jacob Javits, and Richard Stone--sponsored the scheme to bolster the economies of Israel and Egypt to encourage the development of a lasting peace in the area. At the heart of the resolution was the belief that an enduring Egyptian-Israeli peace would be contingent upon Egyptian economic growth and the greater employment which development would bring with it. The senators believed that with generous economic and technical assistance, other Arab states, including Jordan, could be induced to enter the peace negotiations. This optimistic outlook also suggested that prominent allies of the United States--Japan, and West Germany (themselves testaments to rapid post-war industrialization) could be prospective contributors as well. Chancellor Helmut Schmidt indicated that West Germany would be willing

[1]World Bank annuals, 1975-1978. International Development Agency is a World Bank affiliate.

to increase its regular annual aid commitment of $135 million to Egypt but only in connection with a joint Western initiative.[1]

By 1980, the thrust of the Carter plan to infuse billions of dollars of aid into the Egyptian economy had taken primarily military dimensions. In 1979 the Carter administration unveiled a $1.8 billion arms and aid package to be provided over the four years 1980-1984. Of this amount, $1.5 billion had been earmarked for interest-bearing loans for military sales, including F-4 fighter aircraft. [illegible]iginal $1.8 billion arms and aid package, however large it may have been compared to other U.S. aid programs, was unsatisfactory to Sadat who in August 1979 submitted a request totaling more that $10 billion.[2] Sadat's request was made all the more urgent by the Soviet invasion of Afghanistan in December 1979, and by January 1980, reports indicated that additional military aid would be forthcoming. Pending Congressional approval, the original $1.8 billion aid package would almost double to $3-3.5 billion over the next five years.

This 1980 proposed military aid package to Egypt would require the endorsement of Congress where it would be subject to severe scrutiny. In light of the fact that similarly massive transfers of Western technology had been a political and economic destabilizing force for the Shah, the psychological and economic ramifications of such dramatic infusions in the short-term would be important considerations. By no means have all Egyptians rallied around the banner of the Carter/Marshall Plan. For example, Egyptian economist Jawdah 'Abd al-Khaliq has criticized the Carter plan for Egypt were it to take the experience of West European countries in the light of the Marshall Plan as directly relevant to Egyptian needs. The analogous title drawn from the post-WWII plan is not at all appropriate, he writes, because "The Marshall Plan did not bring about the *development* of the countries to rebuild the factories, roads, power plants, hospitals and so forth

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[1] *The New York Times*, 31 March 1979.

[2] *The New York Times*, 7 December 1979.

which WWII had destroyed."[1] *Development*--defined as higher levels of literacy, health care, and housing; equal opportunities in education and productive work; and national self-sufficiency in food and military security--must precede the transfer of technology and the excessive reliance which is brought about by massive infusions of foreign aid. By violating the fundamental principle of politicized Islam--no overt alignment with either superpower--Sadat could be increasing his vulnerability to popular, fundamental religious groups in Egypt.

The large-scale infusion of U.S. military assistance to Egypt would thus require formal U.S. Congressional consent which would have to consider the deleterious effects of any future Carter aid plan for Egypt. In addition, the external, tacit approval of pro-Western governments in the region, especially Saudi Arabia and Israel, would be imperative. Discreet consultations with the Saudis would be essential in helping to avert further political crises in the region which might be catalyzed by closer U.S.-Egyptian military ties and the possible stationing of American naval and air forces on Egyptian soil. As the disaffection in Saudi-Egyptian relations has put the United States in an awkward position and has complicated the development of a Western strategy to forestall further Soviet incursion in the region, the solicitation of Saudi advice would serve to ease potential strains in Saudi-American relations, and possibly to make American assistance more palatable to countries in the Arab mainstream.

Though the Saudis could not openly give their approval for the proposed stepped-up American assistance to Egypt in early 1980, their own prognoses for regional stability could not have failed to recognize that a credible Egyptian military could be a deterrent to forces threatening the stability of the region. But it is important to mention that on the other hand, the Saudis will likely remain apprehensive about the growth and revitalization of the Egyptian military--because it could

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[1] *Al-Akhbar*, 14 August 1979, pp. 7, 12. Translated in JPRS Series on Near East and North Africa No. 2030, 10 October 1979, pp. 18-21. Emphasis added.

become overly adventuristic in future conflict contingencies on the Arabian Peninsula and because it could revert to being a threat to Saudi Arabia were a regime change to realign Egypt militarily with the Soviet Union.

VII. CONCLUSIONS

While Sadat laid the foundations for a new political and economic order in Egypt throughout the 1970s, Saudi state funds had a considerable share in helping him meet his harsh fiscal challenges. With only a fraction of their windfall oil profits reaped after the October 1973 war, the Saudis kept the Egyptian ship from sinking by curbing the growth of Egyptian indebtedness and offsetting increasing levels of consumption. The extraordinary sums the Egyptians had requested to completely bail out the Egyptian economy were not provided. Nevertheless, the Saudis did allocate steadily and reliably billions of dollars to sustain Egypt, to quell political and economic unrest, and to keep Egypt within the Western fold.

According to a prominent Saudi daily, Saudi Arabia has allocated more than $7 billion to Egypt since October 1973 over and above aid for military purchases, balance of payments support and debt servicing. In addition, Saudi Arabia, Kuwait, Qatar, and the United Arab Emirates have contributed $3.7 billion to pay off arrears in Egypt's overseas debts.[1] These figures appear somwhat inflated and they may refer to commitments rather than to actual disbursements of aid. Of course establishing with precision the volume of Saudi military and civilian aid to Egypt since 1973 would be an illusory effort. Even so, the international organizations UNCTAD and OECD have assessed Saudi disbursements since 1973 at between $3 billion and $4 billion. What one can conclude with certainty is that from the October 1973 war until the advent of massive aid flows from the United States in early 1979, Saudi aid flows to Egypt remained unrivalled and reigned supreme in most of the Arab multilateral financial institutions granting concessional assistance to Egypt.

Relative to the tremendous assets which have been placed in Western banks and invested in Western commercial activities, Saudi financial flows

[1] *Al-Riyadh*, 22 May 1979. Noted in *Arab Report and Record*, 6 June 1979. This report stated that Kuwait had contributed $2 billion, Qatar $1.9 billion, and the United Arab Emirates $2.15 since the 1973 war.

to Egypt have been marginal. Yet when contrasted with aid from the industrialized West to developing states in general, Saudi assistance has loomed considerably larger. Moreover, when comparing Saudi financial flows to Egypt with aid flows from other oil-rich Arab states, one can readily perceive the importance of Saudi aid for meeting Egyptian short-term capital requirements.

Requirements for aid flows have intensified in Egypt during times of economic and political crisis, and it has been a recurrent theme in the Saudi-Egyptian relationship that Saudi aid has followed on the heels of such crises. After the 1967 and 1973 wars, and after the economic unrest of January 1977, large Saudi aid commitments were made. In these instances, the large allocations of aid functioned directly (as grants or loans) or indirectly (as outright military purchases) as budgetary props in the short-term to reinforce the political viability of Sadat. The Saudis were not satisfied with these stop-gap measures which provided for negligible long-term structural impact, and they complained that long-term development goals had been consumed by pressing demands for immediate use of cash-flows. The diversion of GODE resources was a salient example. But given the modest growth in the Egyptian national product compounded by the increasing demand for consumer goods and services; the limited absorptive capacity of the Egyptian bureaucracy; the failure of the pioneering reformist laws and institutions to attract substantial Western investment in the Egyptian economy; and the inhibited flows of private capital into the Egyptian public and even private sectors; one can unhappily conclude that even larger doses of Saudi aid would not have hastened Egyptian economic development to any great degree.[1]

Though Saudi purse-strings were kept relatively taut according to the Egyptian governmental line, it has been part of the political

[1] Private Arab capital has gone not into Egyptian industry but into real estate and banking. Private villas, apartment and office blocks, and luxury-class tourist facilities have been favorite private investment outlets. The infamous plan sponsored by Adnan Kashoggi and his business associates who took a share in the Hong Kong group called Southern Pacific Properties was one flagrant example. This scheme to develop the land near the pyramids received Egyptian parliamentary condemnation.

mythology surrounding Saudi aid flows which has attributed this tension to the ulterior motive of accentuating dependency ties. That Saudi aid flows to Egypt have been consciously timed so as to maximize the influence of patronage remains unsubstantiated, and there is no evidence that Saudi assistance has been used in a coercive fashion or that Sadat compromised his political principles in order to curry Saudi favor. In fact, the cessation in 1979 of Saudi largesse to Egypt was a testament to the contrary--the circumscribed political leverage of the Saudi financial patron over its Egyptian client. Sadat chose not to act in ideological harmony with his Saudi benefactor, and as he had done previously with the Soviet Union, he asserted his political autonomy by changing patrons in midstream. As billions of Saudi (and American) dollars flowed into the Egyptian economy helping to extract Egypt from its state of quasi-bankruptcy, Sadat's sense of independence grew and his reluctance to deny the pragmatic impulses of *Egypt-first*ism diminished. Sadat looked beyond the confines of regional corporatism which he felt would lock him into a reenactment of war with Israel, and veered toward a new relationship with the West which promised him comparable economic rewards. Unable to keep Sadat within acceptable political limits, the Saudis were forced to join their Arab brethren in discrediting Sadat.

Though Saudi economic power thus did not ultimately translate into an enduring political leverage, several Saudi goals were achieved through the years of sustained financial flows to Egypt. Sadat cemented Egypt's alignment with the West and especially with the United States. Provided with alternate sources of aid, Sadat was able to break out of his dependent ties to the Soviet Union at a time when, following the 1973 war with Israel, Egypt could have been even more dependent on the Soviets for military assistance and aid for economic and military recovery. Principles of state socialism in Egypt were relegated to the background while forces of economic liberalism began to win the day. In summary, Egypt extricated itself politically, economically, and militarily from the Soviet sphere of influence in the region.

Saudi support for the Egyptian armed forces helped to arrest the decay of anti-Soviet forces elsewhere in the region. By fortifying Egypt militarily, Saudi Arabia kept the militant Qaddafy at a distance and relatively impotent. Sadat's military cooperation with Numeiry kept Soviet influence at bay in the Sudan, a country whose agricultural potential has figured prominently in Saudi schemes to provide for its own population as well as the growing populations of Egypt and the Sudan. It is quite likely that were Egyptian troops to fight on the Arabian peninsula or even in Islamic East Africa, Saudi assistance would be forthcoming. The presence of communist cells and other pro-Soviet groups in several Arab states has strengthened the bonds of Saudi-Egyptian cooperation and has appeared to confirm the existence of a durable partnership based on common, long-term interests.

Long-term Saudi aid prospects appeared most auspicious in 1977 when all of the following were vital and going concerns: the $2 billion GODE aid package for Egypt, the Saudi pledge to purchase weapons for Egypt until 1982, and the Saudi equity participation in the trilateral venture, the Arab Military Industries Organization. The continuing evolution of mutually reinforcing patron-client relations was sustained, however, only as long as Sadat abided by certain unwritten laws dictated by prevailing currents of pan-Arabism and later by the broad appeal of Islamic revivalism. Before the Shah's permanent estrangement from the Iranian masses in 1979, Saudi alignment with the West had been inviolable and Saudi-Egyptian relations, though somewhat ruffled by the Sadat initiative in November 1977, had remained cordial. On the eve of the Baghdad summit in November 1978, the Saudi foreign minister made it clear that "isolating Egypt would be unimaginable" and that the aim of the Baghdad summit "was not to punish Egypt but to unify Arab ranks in the face of the Camp David agreement." Even after the Baghdad conference, Egyptian Defense Minister Kamal Hassan Ali was careful to emphasize that the decision by certain Arab states to halt support for Egypt was a short-sighted political move and that AMIO would go on functioning. He added that Arab (viz., Saudi) financial support was the principal source of financing Egyptian arms purchases.[1]

Several months later, after the Iranian revolution, the second Baghdad summit in March 1979, and the signing of the Egyptian-Israeli peace treaty, this accommodating Saudi posture vis-à-vis Egypt had to be reluctantly abandoned. Profound socio-economic objections to Iranian reliance on the United States spurred on anti-Shah forces, and the swift and unanticipated tide of Islamic fervor heightened the potential for similar political offensives elsewhere in the region, including Saudi Arabia.[2] The Saudis were forced to reexamine the assumptions underlying their domestic and foreign policies in order to avert a possible polarization of the Islamic world into revolutionary and status quo camps--a regional environment as threatening to the Saudis as that created by the èlan of Nasser in the previous decades.

Prior to the fall of the Shah, the vulnerability of the Saudi royal house to destabilizing internal forces had not been considered a real threat. But afterwards, the monarchy began to show signs of concern, in part, because of its fragile political institutions. It was no coincidence that fallout from the Iranian revolution prompted Saudi Arabia, Iraq, and Kuwait to announce the revival of parliamentary structures and even to organize elections. Creating the appearance of more broad-based support became a defense mechanism designed to ward off the eruption of massive domestic political grievances similar to those in Iran. This was not to be the case, however, as a politically and religiously disaffected opposition made its first major appearance in Saudi Arabia in November 1979 Some 200 gunmen, including members of the Otaiba tribe and former members of the Saudi regular army and police force, occupied the Grand Mosque in

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[1] *Al-Hawadith*, 15 December 1978, pp. 38, 43. Translated in JPRS Series on Near East and North Africa No. 1906, 6 February 1979, pp. 9-12.

[2] Some political analysts have likened the Iranian revolution and its Islamic cultural and political aftershocks to the French Revolution of 1789 and its extensive damage to existing European cultural and political traditions.

Mecca. The attack was directed against the pro-American Saudi government which the religious revolutionaries believed to be betraying the Salafiyya heritage of Islamic fundamentalism.[1]

Well before this incident, Saudi Arabia had begun to adroitly pursue a wide range of policy options to retain its influence in the Arab world. The construction of a new foreign policy had brought a warming in Saudi relations with Iraq and Syria, and even a hint of establishing formal lines of communication with Moscow.[2] Concomitantly, Saudi relations with Egypt precipitously cooled. Besides being a state with diminishing economic returns, Egypt had become a political liability following Sadat's sharp deviation from the comprehensive framework for peace negotiations established by previous pan-Arab summits. Given the Saudi goal of checking subversive ideological forces at home and in the political vicinity, Saudi diplomatic ties with Egypt were severed and the highly visible financial and military undertakings were curtailed. Aid flows from the Saudi Development Fund, the Arab Monetary Fund, the Arab Fund for Social and Economic Development, and the Gulf Organization for the Development of Egypt ceased. In addition, the purchase of 50 F-5Es was canceled and the commitment to AMIO terminated. As a result of these sanctions, Saudi-Egyptian relations suffered a setback after a decade of growing economic, military, and political cooperation.

However, the persistence of common Saudi-Egyptian interests in the region militated against the halting of all Saudi public aid to Egypt. The Saudis continued to purchase less visible military equipment for Egypt, including $100 million for jeeps and trucks in 1979. The

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[1] In Beirut, a group calling itself "The Union of the People of the Arabian Peninsula" described the siege as "an Arab and Islamic progressive operation with hatred for America and Zionism." *The New York Times*, 28 November 1979.

[2] Interview of Saudi Foreign Minister Prince Saud al-Faisal in *Al-Hawadith*, 3 March 1979, reported in *The New York Times*, 5 March 1979. For Soviet intimations of possible warmer relations with Saudi Arabia see Igor Beliaev, "Saudi Arabia: What next?", *Literaturnaya Gazeta*, No. 5 (31 January 1979), p. 14.

contracts of hundreds of thousands of expatriate Egyptian workers (whose annual earnings in Saudi Arabia now approximate $500 million) were not revoked, and Saudi deposits (estimated at $1 billion) in Egypt banks were not removed. Other financial arrangements also continued--joint companies financed by Saudi capital, Saudi underwriting for Egypt to the IMF and to private and international banks.

With respect to Saudi private sector financial dealings in Egypt, Prince Saud al-Feisal gave confirmation in late 1979 that private investment in Egypt would not be formally curbed. The Arab economic measures agreed to at the Baghdad summit conference in March 1979, were, in his opinion "not intended to affect relations between the people of Egypt and other Arab countries."[1] Saudi entrepreneur Adnan Kashoggi was therefore not overstepping the bounds of official Saudi policy when he helped arrange the $1.8 billion financial package with a European consortium for a new telephone system in Egypt.[2]

The cut in Saudi public sector aid might not have been as dramatic had Egypt not recently received growing commitments of Western, especially American, aid. The deterioration in Saudi-Egyptian relations was, in a roundabout way, linked to the improvement in Egyptian-American relations, enabling the Saudis to achieve two policy goals: saving face politically in the Islamic world and at the same time ensuring that American aid would rob Saudi financial sanctions of any fatal sting. In fact, U.S. aid has kept Sadat from being forced over the brink of bankruptcy. By September 1979, U.S. aid to Egypt had totaled $4.3 billion in appropriations which, even when adjusted for inflation, represented more than the per capita aid given to Europe through the Marshall Plan.[3]

[1,2] See Hoagland, Jim, "Saudi Helped Egypt Skirt Arab Aid Ban, Sources Say," *Los Angeles Times*, 15 October 1979.

[3] This $4.3 billion included $1.05 billion in outstanding commitments. *Middle East Economic Digest*, 10 August 1979. Already, more than half of Egypt's outstanding civil debt of $11.7 billion is to the West and international agencies. The U.S. has provided $2.92 billion; Japan, Iran, and other Western states $2.22 billion; international agencies $3.92 billion, and Arab governments $0.46 billion; and the Eastern bloc $2.24 billion. *Middle East Economic Digest*, 17 November 1978.

Be that as it may, U.S. aid will not be an economic panacea for Egypt, and for two reasons it may even be less than a comparable substitute for Gulf aid. First, Western concessional assistance will probably not match the aid Egypt has received from the Gulf oil producers since 1967. To accomplish this the U.S. would have to sustain its civilian and military aid programs to Egypt for several years at present levels and this appears unlikely for political and economic reasons. Second, overt dependency on the United States gives Islamic forces (inside or outside Egypt) the grounds to condemn Sadat for allegedly compromising Egypt's political independence. Wide-ranging economic and military cooperation with the U.S. ultimately proved to be detrimental to the political health of the Shah.

Thus what might best suit American interests in the Arab world would be a Saudi-Egyptian rapprochement and a reversion to previous patterns of aid flows. Saudi aid--rarely tied and political untainted--does not entail the same risks for Sadat as does U.S. aid. The U.S. has been aware of this fact and has valued Saudi aid flows to Egypt in the past. It was the growing appreciation of Saudi support for moderation in the region in general, and Saudi support of Sadat in particular, that won the approval of the controversial package sale of weapons to the Middle East which included 60 sophisticated F-15s for Saudi Arabia.

The prospects for rapprochement between Saudi Arabia and Egypt in the 1980s are inextricably entwined with the prospects for regional stability. Until a future regime builds confidence and stability in Iran, and until a new formula for protecting Gulf oil resources is found--preferably without active U.S. involvement--the Saudis will restrain themselves from overtly identifying with Western interests in the region. Saudi foreign policy will continue to be introspective, and sensitive to Islamic currents as long as the anti-American spirit pervades Iran. A just and lasting solution to the Palestinian question, including the status of Jerusalem, would remove the primary obstacle blocking the avenues for improved Saudi-Egyptian relations. It might also facilitate Saudi-Egyptian-American cooperation which, before the Iranian revolution and the Egyptian-Israeli peace treaty, was predicated upon a broad scope of shared economic, political, and military interests.

This is not to say, however, that were Saudi-Egyptian relations to improve in the 1980s, Saudi aid flows would then proceed at previous levels and military cooperation would necessarily follow. Even before the rupture in relations in 1979, Saudi concessional flows to Egypt had been on the decline as a result of the greater geographical diversification of Saudi aid recipients. The funds which Saudi Arabia has backed with capital assets are increasingly seeking profitable investment opportunities throughout the Arab and non-Arab world. Director-General of the OPEC Special Fund, Ibrahim F.I. Shihata, noted in 1977 that OPEC members had to "consider investment opportunities in several nations that are in relatively advanced stages of development without yet belonging to the group of rich industrial powers."[1] Saudi aid to Egypt was being trimmed by another trend--the declining amount of Saudi surplus funds. As Saudi expenditures for technology and manpower have increased with the rate of inflation, one consequence has been a fall in the amount of Saudi assets allocated for aid. In addition, with Western aid to Egypt on the rise, and with an anticipated foreign exchange earnings of more than $3 billion in 1979, Egypt's economy has shown signs of promise and the absolute necessity of massive Saudi concessional assistance has become somewhat mitigated.

Throughout the 1980s the interests of the Arab states will likely continue to clash with the broad scope and integrative assumptions of pan-Arabism and Islamism. No one Arab state will emerge to dominate or lead the region, though both Saudi Arabia and Egypt will continue to be serious contenders for Arab leadership. Alone, neither could assume the position. Egypt lacks the natural resources and economic wealth vital to sustain a policy of regional Arab leadership. Saudi Arabia, on the other hand, is not the cultural, technological and educational leader of the Arab world which Egypt is.

From 1967 through 1979, Saudi Arabia and Egypt pooled their human and material resources to mutual advantage. As in the days of antiquity,

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[1] *The New York Times*, 8 December 1977.

Arabian-Egyptian symbiosis has been an Islamic lifeline, ensuring the continuity of a cultural tradition. Centuries ago the tradition was established whereby the caravans of Islamic pilgrims originating in Egypt, the Levant, and the Yemen would transport economic wealth to the holy sites in Arabia. In recent years, however, the flow of the lifeline has been reveresed and wealth has been transferred instead into the three Islamic realms, Egypt being the outstanding outlet. But by 1980, as a consequence of regional turmoil and political realignment, Saudi Arabia had dried up as the financial wellspring for Egypt. Whether Saudi funds will again flow with equal force into Egyptian public coffers, and whether both Saudi Arabia and Egypt will ever be part of the Arab mainstream at the same time in the near future--as they were in their heyday of political and economic cooperation in the mid-1970s--remains to be seen.

END